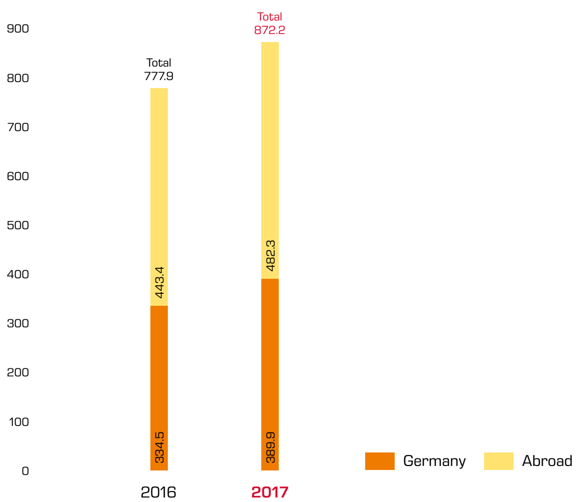
itelligence NTT DATA Business Solutions

ITELLIGENCE KEY FIGURES

MEUR	IFRS 2017	IFRS 2016	IFRS 2015	IFRS 2014
Total revenues	**872.2**	**777.9**	**696.2**	**556.8**
Revenues by area				
Consulting	358.2	331.4	310.1	246.6
Licenses	87.9	79.0	69.4	56.9
Cloud Subscription	14.1	6.5	2.7	0
Managed Services	408.5	360.2	310.6	252.4
Other	3.5	0.8	3.4	0.9
Revenues by segment				
DACH (Germany/Austria/Switzerland)	417.9	364.6	321.2	255.0
Western Europe	200.1	177.6	154.8	120.2
Eastern Europe	87.8	83.3	74.6	63.1
America	145.2	135.7	130.8	107.0
Asia	14.3	12.5	10.7	7.0
Other	6.9	4.2	4.1	4.5
EBIT in MEUR	33.8	34.9	36.0	22.8
EBIT margin	3.9%	4.5%	5.2%	4.1%
EBITA in MEUR	44.1	42.2	42.9	27.2
EBITA margin	5.1%	5.4%	6.2%	4.9%
EBITDA in MEUR	67.4	64.0	62.5	43.3
EBITDA margin	7.7%	8.2%	9.0%	7.8%
Earnings IFRS	18.8	18.2	21.1	7.2
Earnings per share	0.56	0.56	0.63	0.11
Cashflow per share	-0.22	0.11	0.50	-0.04
Return to sales	2.2%	2.3%	3.0%	1.2%
Cashflow in MEUR	-6.7	3.4	15.1	-1.4
Balance sheet total in MEUR	578.0	544.7	459.3	397.2
Equity in MEUR	174.5	165.8	155.0	132.9
Equity ratio	30.2%	30.4%	33.7%	33.5%
ROE (Return on equity)	10.7%	11.0%	13.6%	5.1%
ROA (Return on assets)	4.5%	4.4%	5.8%	3.9%
ROCE (Return on assets employed)	6.1%	6.2%	8.6%	5.6%
Investments in MEUR	60.7	45.5	37.9	58.3
Employees as of December 31	6,983	5,677	4,702	4,140
Average	6,450	5,276	4,422	3,626
– Germany	2,795	2,653	2,040	1,861
– Abroad	4,188	3,024	2,662	2,279

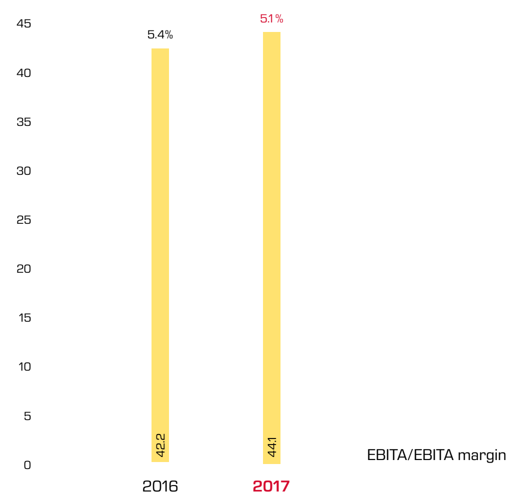
REVENUE DEVELOPMENT

MEUR



GROWTH IN EARNINGS

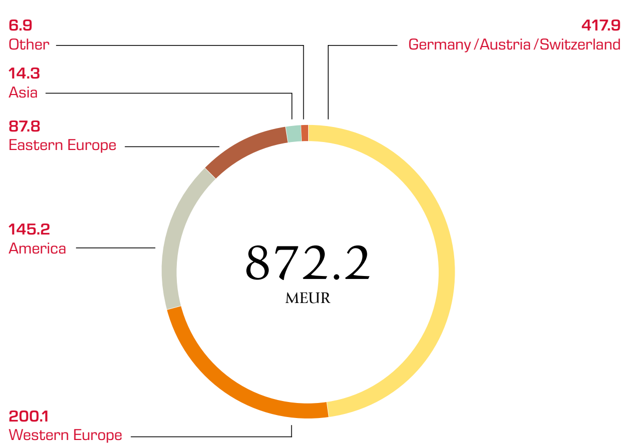
MEUR



REVENUE DEVELOPMENT BY SEGMENT

MEUR

2017

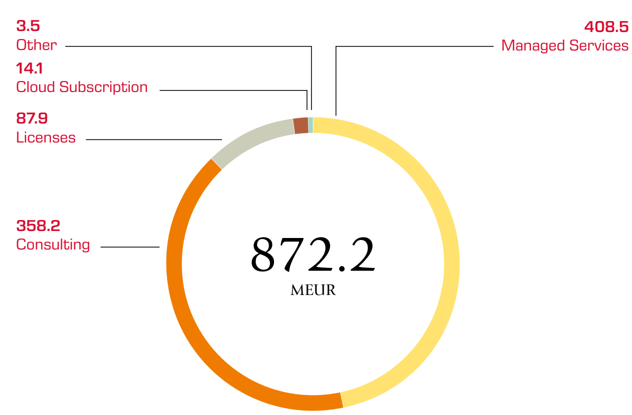


Change	+12.1%
D/A/CH	+14.6%
Western Europe	+12.7%
America	+7.0%
Eastern Europe	+5.4%
Asia	+14.4%
Other	+64.3%

REVENUE DEVELOPMENT BY DIVISION

MEUR

2017



Change	+12.1%
Consulting	+8.1%
Licenses	+11.3%
Cloud Subscription	+116.9%
Managed Services	+13.4%
Other	+337.5%

ITELLIGENCE INSIGHTS 2017

ANNUAL REPORT 2017

DEAR FRIENDS OF ITELLIGENCE,

We find ourselves looking back on a successful fiscal year in which we recorded double-digit revenue growth for the ninth year in succession. One year ahead of our thirtieth anniversary, revenues of MEUR 872.2 – a new record – mean we are fast approaching the billion-euro mark. Whoever would have thought that? We can also say with some pride that we set ourselves this target ten years ago. I would like to express my sincere gratitude to all of our employees for their outstanding performance in the past years.

With 25 foreign subsidiaries and as a member of NTT/NTT DATA Group, itelligence AG is a leading global partner of SAP. Our expertise and size have made us increasingly attractive for global companies and corporations in recent years. We have continuously expanded our industry expertise to reflect this. Although we have a global outlook, our success is primarily founded on our proximity to the customer and our midmarket DNA. And that is something we are proud of.

The confidence placed in us by our customers serves as validation, but also as an incentive: we are permanently striving to improve, which is why we initiated a comprehensive restructuring project last year. Alongside our tried-and-tested regional focus, we introduced more extensive global responsibilities and integrated them with the national subsidiaries. This will allow us to use proven processes and tools, leverage synergies and generate value added for our customers around the world even more successfully than before. We explain why it was the right time to restructure and discuss the other challenges we intend to overcome in the interview with the Management Board starting on page 4.

As well as encouraging togetherness within our company, we want to strengthen our partnerships and cooperations – not only with our customers, but also with SAP, our parent group NTT DATA, and the NTT companies. The projects we manage jointly are increasingly illustrating the benefits of our special role as a global SAP hub for NTT DATA, and our customers are profiting from this complementary and supplementary function.

The positive effects of togetherness

This is why the motto of this year's annual report is "Togetherness" – and as you read the report, you will find plenty of examples of what we mean by that.

Our regional heads introduce themselves from page 12 onwards. They all have one thing in common: they are team players with a perspective on the entire company, not just

Norbert Rotter, Chief Executive Officer

their own area of responsibility. This new global orientation is a milestone for itelligence AG and will help accelerate our global growth even further.

In addition to several highlights of the past year, we are already looking forward to the SAP Pinnacle Awards 2018 with which SAP recognizes successful partners: in 2018, we were awarded three SAP Pinnacle Awards as SAP Global Platinum Reseller of the Year, as SAP SuccessFactors Partner of the Year – Small and Midsize Companies and as SAP Partner of the Year – Database and Data Management. These awards prove the market strength of itelligence, the trust of our customers in the excellent performance of our more than 7,000 employees and the close and trustworthy partnership with SAP. Here too, though, success serves not only as validation but also as an incentive.

With this in mind, I hope you enjoy reading our annual report.

Yours,
Norbert Rotter

In this joint interview, Norbert Rotter and Dr. Michael Dorin talk about why itelligence is reorganizing despite a successful year, what challenges need to be overcome, and how they work together as the dual members of the Management Board.

Mr. Rotter, Mr. Dr. Dorin, 2017 saw itelligence recording double-digit growth for the ninth year in a row. You must be extremely satisfied with the past fiscal year? Rotter Our revenue growth to MEUR 872.2 is unquestionably a great success and a reflection of the strong performance of our entire team. In addition, the fact that we again recorded double-digit growth shows that we have an extremely attractive service portfolio for SAP technologies and that itelligence enjoys an excellent reputation around the world. However, it is also true to say that we are currently benefiting from unusually positive conditions: the rapid pace of technological change means numerous companies are looking for expert partners for their digital transformation and are investing large amounts in technology. Our success in recent years and our optimistic outlook for the future provide us with great motivation for continuing to develop our business model.

Last year, you stated that your aim was to increase profitability. Instead, the profit margin actually fell slightly. Why? Dorin We operate in an extremely competitive global market, often in competition with large consulting firms – particularly when it comes to projects in the upper midmarket. This is putting pressure on margins in some cases. In addition, we are maintaining our high level of investment. For example, we are investing in state-of-the-art data center

THE NEW GLOBAL ORIENTATION WILL BRING US CLOSER TOGETHER

Norbert Rotter, Dr. Michael Dorin (from left to right)

technologies and new product solutions. We also had to absorb non-recurring effects such as substantial restructuring costs in the Czech Republic and a major project cancellation in the USA. Without these effects, our profitability would have increased compared with the previous year, so our operating business is performing as forecasted. At the same time, however, we remain committed to improving our operating margin. **Rotter** Absolutely. This is why we decided last year to take advantage of the good times to lay the groundwork for our future and initiate extensive measures in order to increase both profitability and value added for our customers. We are making ourselves fit for the future with a comprehensive reorientation and the most fundamental changes in the past 15 years.

What exactly will change? **Rotter** Firstly, we have strengthened our position at an organizational level and established new global responsibilities. At present, the individual regions and countries have very different structures and processes that are preventing us from leveraging economies of scale and generating synergies. It is time for us to take the next step in our integration and achieve a new form of cooperation. **Dorin** In recent years, itelligence has been very successful in filling the gaps on the map, developing from a regional consulting firm into a leading SAP service provider at breathtaking pace. Understandably, the integration of the new branches into our corporate structures ended up being neglected slightly.

And what are the specifics of the next step in the integration process? Rotter We are currently defining new standards for all of the divisions that will apply worldwide, from Canada to Malaysia. In our consulting business, for example, our consultants around the world should be able to access established tools rather than having to reinvent the wheel for each new project. I am confident that this offers considerable untapped potential that will allow us to achieve value added for our customers and improve our profitability. Dorin This also applies to our administrative expenses, which have risen more or less in parallel to our revenues in recent years. New standards will enable us to finally generate synergies in this area.

What are the consequences for administrative employees? Dorin We will no longer need to develop solutions for every requirement and reporting specification in every country, and will instead be able to fall back on standards and best practices to a greater extent. Our administrative colleagues are no less skilled than their consultant counterparts. They have a keen interest in working with our head office to develop the standards that will apply for itelligence worldwide. This will cut down on considerable redundant effort in future, thereby reducing our administrative costs.

New standards and requirements from the head office tend not to meet with torrents of enthusiasm. Are you worried about internal conflicts? Dorin That might be a risk if we were coming up with the standards behind closed doors and imposing them from above. This is precisely why our employees are developing the standards themselves and are deciding to what extent existing tools and processes need to be adapted or amended in order to become global standards. This process is being conducted by virtual teams comprising representatives of the different regions. Rotter The reorientation is a challenge for our managers, too. More than ever before, they must communicate openly and transparently and think beyond their own country or region when discussing the new standards. We reorganized at management level last year in order to foster an improved understanding of the big picture and to further strengthen our cross-border team spirit.

What exactly has changed as a result? Rotter Previously, second-level managers were responsible primarily for their regions or areas. We are now adopting a systematic approach whereby the regional officers are also responsible for one of our Global Business Functions, i.e. Consulting, Sales, IT Products and Managed Services. We are also working to integrate our business in Asia into the itelligence network more closely. In this region, we are also responsible for the NTT DATA companies with a strong focus on SAP services. The topics of strategy and innovation are now also being managed centrally. These are some of the important conditions if we are to continue our development into a global champion.

Let us turn our attention to the current fiscal year. What do you see as the main challenges in the coming months? Dorin Of course, it is essential that we develop and implement the new standards. Continuing to improve our in-house IT will be another of my focal points. Rotter It is important for us to keep up a strong pace of growth. We are increasingly gaining customers with international activities and revenues in excess of a billion euros. Alongside the highly attractive midmarket – our core business – we want to generate above-average growth in this customer segment, too. These customers view us on an equal footing thanks to our local presence as a full-service SAP provider with more than 7,000 employees worldwide. With our industry and process expertise and our technological SAP know-how, itelligence is a company that occupies a unique position globally.

Can you also benefit from your owner, NTT DATA, when it comes to attracting major customers? Dorin NTT DATA has several major companies among its customers in this country and consistently involves us in projects. As such, we are delighted that NTT DATA intends to become even more active in Europe – and we will continue to intensify this cooperation. Rotter That applies beyond Europe, too. Our objective as defined in cooperation with the owner is to become the global SAP partner worldwide, including a partner to multinational companies. Thanks to our strong contacts and close dialog with the responsible people at NTT DATA, I am confident we will achieve this. We still have some way to go, of course, but we are already doing the groundwork together with SAP.

"Our objective as defined is to become the global SAP partner worldwide, including a partner to multinational companies. Thanks to our strong contacts and close dialog with the responsible people at NTT DATA, I am confident we will achieve this."

— **Norbert Rotter**

"Following the extremely promising acquisitions in India and the Netherlands in 2017, we are planning between two and three acquisitions a year in the future." — Dr. Michael Dorin

Speaking of SAP, your partner company has adopted a new strategy which it is now systematically implementing. What does this mean for itelligence? Rotter We will adapt ourselves and our customers to SAP's "cloud first" strategy, which I believe will also offer strong growth opportunities for SAP partners. SAP's portfolio has expanded dramatically in recent years. At the heart of this development is the digital core based on the new generation of S/4HANA technology with the SCP platform. The various cloud products and line of business solutions are then docked to this. The e-commerce software SAP Hybris is extremely promising. We have won some interesting customer projects, and I can also easily imagine an acquisition in this field.

So you do not only want to attract new customers, you also want to expand your service range. Will itelligence continue to grow regionally, too? Dorin Yes. Following the extremely promising acquisitions in India and the Netherlands in 2017, we are planning between two and three acquisitions a year in the future. For example, we made a small acquisition, the Swedish company "Eins", in early April. Latin America is undoubtedly also an interesting region for the future.

What are the obstacles to this growth? The economy remains in good shape and demand for consulting on digitalization remains high. Rotter One key challenge that has occupied the entire IT industry for years now is finding qualified employees in sufficient numbers and retaining them for the long term. We pursue active partnerships with universities and higher education. We also win over potential employees with our own itelligence culture, which is characterized by a strong team spirit and exciting IT projects in an international environment. We give employees a great deal of freedom, but also the opportunity to take responsibility quickly. At first glance, Google, Amazon, or smaller start-ups might seem more attractive to young university graduates. However, what we can offer is sector diversity and a high degree of process depth, from shop floor process expertise to e-commerce solutions. This makes us the ideal environment for IT careers.

What expectations go hand in hand with this freedom? Rotter Obviously, our consultants must be prepared to take responsibility, whether they are new to the company or have been with us for some time. For me, this means taking responsibility for maintaining close contact with customers, for example – and not only with IT experts, but also with specialist departments as well as owners, executives, and managing directors. For me, responsibility also means not just telling customers what they want to hear, but clearly arguing their position – particularly when it comes to change projects. This is why we need strong personalities with communication skills as well as professional expertise.

What are your financial targets for 2018? Dorin We are aiming to generate revenues of MEUR 920-930. We want to break through the billion-euro barrier just in time for our 30th anniversary in 2019.

Mr. Dr. Dorin, your CEO, Norbert Rotter, has been with itelligence for ten years now, while you joined in early 2017. What were your personal impressions of your first year? Dorin Although I came from a different industry and announced extensive changes together with Norbert Rotter shortly after my arrival, I have been welcomed with open arms. I quickly felt accepted – not only by employees, but also by the managers reporting to me directly. In other words, it has been a good start as far as I am concerned.

What were your highlights? Dorin They would have to include the trips to our international locations like India and Turkey, where I gathered a lot of impressions and met interesting people who identify with itelligence. I immediately felt what it means to work for a global company.

Did you also encounter any negative surprises?
Dorin One thing I had to get used to was that someone in my position at a big company like itelligence is frequently confronted with things that do not go according to plan. Fortunately, though, the vast majority of our projects are extremely successful and very few of them ever end up with the Management Board. As such, it is important to make sure you see the big picture and that you also appreciate the many positive results.

The size of your previous employer, Blue Ocean Entertainment, presumably meant you were involved in events and decisions far more directly. To what extent were you shaped by your role as CFO of a media start-up?
Dorin That role also involved working in an extremely dynamic environment where decision-making and a willingness to engage in intensive, open communication were particularly important. I am confident these two characteristics will also help me at itelligence. **Rotter** And I share this confidence. Michael Dorin's management philosophy makes him an excellent fit for our company. And I think we have found our feet quickly and are working well as a team. Incidentally, that applies to more than just the Management Board. I believe our entire management organization is ideally positioned to take advantage of the extensive opportunities together with our employees and overcome the challenges that lie ahead. ■

ITELLIGENCE INSIGHTS 2017

TOGETHERNESS – PART 1

TOGETHERNESS – PART 2

NTT DATA HACKATHON COMPETITION

Stefan Ellerbrake

Executive Vice President Global Consulting, Head of Western Europe

"itelligence will be the leading partner, supporting its customers on their path to digital transformation and adaptation of the latest cloud-based technologies."

"Consulting with conviction"
Stefan Ellerbrake in portrait
Page 20

Dr. Andreas Pauls

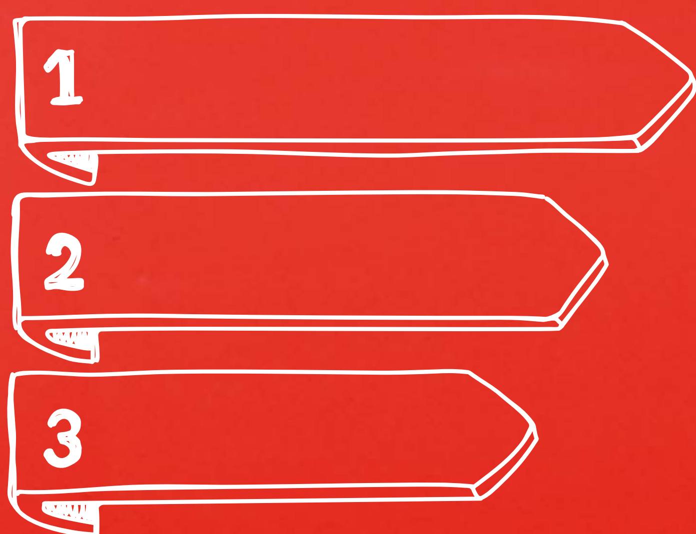
Executive Vice President Global Sales, Head of SAP Business Unit Germany

"We need to step on the gas and create the necessary foundations that will allow us to continue our growth story of recent years."

"Pulling in the same direction"
Interview with Dr. Andreas Pauls
Page 22

Lars Janitz

Executive Vice President Global Managed Services, Head of iGMS GmbH Germany

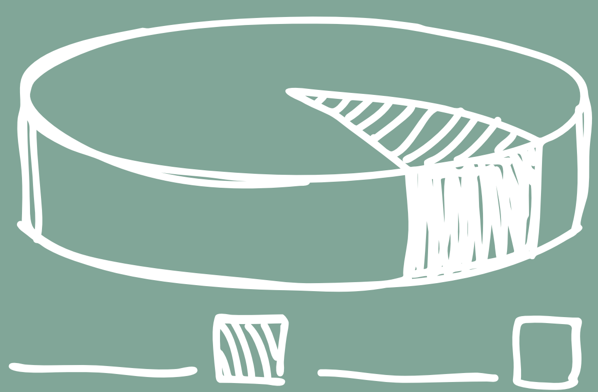


“itelligence is pursuing a clear strategy of additionally addressing international customers in the large enterprise market.”

“Global standards – local success”
Interview with Lars Janitz
Page 23

Nicolaj Vang Jessen

Executive Vice President Global it.products, Head of Central Eastern Europe & Nordics



"Our aim is to systematically sell more of our best local products in other countries."

"Structured development and marketing"
Nicolaj Vang Jessen in portrait
Page 25

CONSULTING WITH CONVICTION

STEFAN ELLERBRAKE heads the Global Field Consulting organization – the largest unit within the itelligence Group. In his role as global head, he is responsible for ensuring that the available capacity is translated into optimal results – without surrendering itelligence's traditional strengths in the process.

The consultant has an ambitious target in mind: "itelligence will be the leading partner, supporting its customers on their path to digital transformation and adaptation of the latest cloud-based technologies." The groundwork has already been laid in terms of resources. Around 4,000 of itelligence's workforce of over 7,000 employees work in 25 countries for the worldwide "Global Field Consulting Services" organizational unit. After all, consulting is still a people's business and needs to be provided locally.

Stefan Ellerbrake is responsible for ensuring that the organization's workflows and standards are adjusted to meet the requirements of the time. His report from the consulting frontline: "Our customers today are a lot better informed about technological trends and best practices than 20 years ago." They also tend to have higher expectations in terms of how long it takes to implement software or how long they must wait for a new program to start having a positive effect, for example. "Major IT projects lasting several years are a thing of the past." Instead, modern consulting is output-driven and geared towards speed – not least because customers have to adapt their business models more rapidly than they used to. Agility is more than just a buzzword.

However, digitalization is now presenting something of a paradox. As Ellerbrake explains, most companies have sought to increasingly standardize and simplify their technical platform for the digital transformation, tacitly accepting reduced flexibility in the process. "At the same time, however, customers want to be able to process increasingly complex business processes, particularly beyond company boundaries." This dichotomy of platform-side simplicity and "considerable process-side complexity" means process and IT consultants often find themselves having to perform a balancing act. The key is to work with the customer to establish which processes should receive standardized support and which workflows and functions give them a real competitive edge. "This is where we see that consulting goes far beyond simply implementing processes."

Ellerbrake believes the company's tradition will be an important factor in its future success: "itelligence is solution-oriented and focuses on achieving results." He also has no need for huge, self-perpetuating projects: "Our 4,000 consultants are working on hundreds of different projects at any given time, so we are not faced with the challenge of having to sell man-days to individual customers." Instead, he feels it is more important for a project "to have a defined start point and end point, so that solutions can be quickly implemented."

In order to achieve this in the fast-moving global consulting business, Ellerbrake ensures that Global Field Consulting Services works to standardize processes, improve workflow efficiency and smoothly transport the available knowledge to wherever it is needed within the company. "Standardization gives us greater scope within our projects to concentrate on solutions that generate real value added for the customer." In turn, customers benefit from the fact that itelligence works in a structured and efficient manner while still allowing its consultants and solutions to develop freely. "In the future, we must continue to set ourselves apart from our competitors in terms of how we support our customers," Ellerbrake adds.

The heterogeneous nature of the 25 national subsidiaries requires the manager and his team to demonstrate their powers of persuasion. The first phase involves getting the opinion leaders on board – the biggest consulting units worldwide, in other words. One technical approach for achieving this is the implementation of an employee resource planning tool on the SAP Cloud Platform that has been developed by itelligence itself. One snag, however, is that each national organization has its own style when it comes to resource planning. A top-down culture tends to be more prevalent in southern Europe, for example, while Scandinavian consultants typically plan their own project deployment. “We have developed a flexible program that integrates all of these approaches,” Ellerbrake notes.

He sees the key tasks of the global functions as defining the conditions behind the lines and facilitating the work of the national organizations. After all, local colleagues can be supported most effectively by colleagues who share the same cultural context. “We have no intention of telling our experts exactly how they should be doing their job – they already know that themselves.” And the necessary changes are not imposed from above, but instead are implemented through dialog and persuasion. “For example, if I want to win over a strong itelligence unit like the one in Turkey, which boasts more than 250 experienced consultants, then I will need to bang the drum for my initiatives in face-to-face discussions.”

One key to success is the global digital practices, which are organized by Global Field Consulting and concentrate on itelligence’s key industries and topics. Virtual teams are used to organize the exchange of experience and the structured adaptation of technological innovations, while the practices also have a clear customer focus. “We need to make digital transformation a tangible reality within the respective industry environment and subject area and ensure that we actively take our customers with us on this journey.” To this end, SAP technology topics and business aspects are combined and made available to the local itelligence units as “digital transformation maps”. Specific implementation then takes place at a local level.

Another example of this overarching cooperation is the planned “large account practice”, which will target international companies with annual revenues of over one billion euros. As Ellerbrake explains, customers with a pronounced international focus will be looked after by a central consulting organization in the future. “itelligence does not currently have effective structures for optimally supporting large-scale customers who want to roll out their IT systems on another continent, for example.” Despite the global reporting paths within the group, a structured process will ensure that it is geared closely towards the local units. Although the large accounts “belong” to the local units, global engagement and delivery will be coordinated centrally. The main thing is that nothing will be decided automatically. Instead, the global and local units will work together to select large accounts on the basis of specific criteria.

“Each continent now has a triumvirate consisting of a Client Director, an Innovation Director and a Delivery Director, who are tasked with looking after top customers,” Ellerbrake explains, adding that this approach ensures customers always receive a consistently high level of support across national and regional borders. The model also enables close cooperation with itelligence’s Global Managed Services unit and the parent NTT DATA. As well as revenue growth, the aims are to improve the efficiency and quality of itelligence’s consulting performance and to increase customer satisfaction. “This is the real value added of our global functions.”

For Ellerbrake, the need to convince colleagues of the imminent changes will serve as good practice for the market. After all, customers facing time pressure also need to be presented with credible arguments that get straight to the point. This reflects the company’s own special culture: “Our employees and our customers are not awestruck when they are visited by a high-ranking consultant – what matters is their ability to win them over to the benefits of a solution.” ■

PULLING IN THE SAME DIRECTION

DR. ANDREAS PAULS, Executive Vice President Global Sales, is responsible for controlling changes in the global sales organization. In this interview, he explains how the global Sales organization will perform with more agility in the market environment in the future and how regional best practices optimize global sales processes.

Dr. Pauls, what do you see as the reasons behind the introduction of a new management structure and therefore the Global Business Functions? Thanks to its acquisition strategy, itelligence's growth as an organization has involved a pronounced federalist approach. Now is the right time to set global standards in a sales context as well. Although there are considerable differences in the SAP ecosystem and SAP maturity from region to region, we want itelligence to offer a consistent face to the customer. We need to increase speed and create the necessary foundations that will allow us to continue our growth story of recent years.

What structural changes do you see in the Sales process? Sales needs uniform standards and courses of action in order to leverage the economic potential in all countries equally. We are also initiating global strategic initiatives with the clear goal to fully leverage market potential in all countries and regions.

To what extent will you intervene in the local Sales organization in such cases? We will certainly not be assuming operating responsibility for sales in countries that show deficits when it comes to realizing the available potential. Responsibility for addressing the respective market and for customer development will remain local. We have the overarching sales responsibility for the regions and can analyze structural problems and search for useful solutions together with the respective regional head. The world is not defined in Bielefeld alone. It doesn't work like that. We are seeking to achieve cooperation and mutual learning and experience of our best practices.

How do you get all of the global Sales units to pull in the same direction? Sales organizations are oriented on local markets. Due to globally positioned customers, worldwide cooperation is becoming more and more important. We are already seeing positive signs and far-reaching efforts on the part of the local Sales organizations to actively participate in this change. In particular, the active application of our intelligence strengths in a global context will be beneficial to all of the local Sales organizations when it comes to addressing the respective local market. The process of rethinking is already underway and cross-border Sales collaboration is being intensified. However, this cannot be the only driver for a global organization. We need to create the openness to communicate across borders and not only concentrate on our own market.

How do you intend to win over Sales employees to this new way of thinking? One of the key levers will undoubtedly be best practice sharing, which we have already initiated at some of the larger national subsidiaries. This involves defining regionally successful approaches in global terms and rolling them out in all countries. For example, this will enable us to harness the current momentum for cloud business in places like the USA for countries whose affinity for the cloud still has some room for improvement. We can also leverage synergies through uniform global campaigns for marketing and lead generation. We see this as a form of assistance, but also as a challenge to take advantage of the support offered by the global organization.

What strategic initiatives are you undertaking to advance global Sales? For me, there are three key areas. In data-driven demand management, we are using the available market data to define target groups and address them across all channels. We have gained valuable experience with big data in marketing in Germany and intend to roll this out to the entire organization – in close cooperation with our major software partner. Secondly, we need to empower our Sales employees and foster knowledge building within the organization. We must ensure that the units responsible for sales management are permanently informed about the status quo. And the final area is the cloud transformation of our sales processes and customers. The change in the ERP segment will take some time, but it makes sense for us to already be developing the support models for cloud customers. The shorter release cycles already represent a regular trigger for engaging with our customers.

And what is your motto for 2018? In short: Bring it on! ■

GLOBAL STANDARDS – LOCAL SUCCESS

LARS JANITZ brought with him a well-drilled organization as the head of the "new" Global Managed Services unit. In this interview, he discusses the targets he has set for the team of around 1,300 employees and how he intends to intensify cooperation with his customers at the national subsidiaries.

Mr. Janitz, you have been in charge of the nucleus of your Global Business Function since 2014. How has the Managed Services area changed in recent years? There is always room for improvement, but managed cloud and application management services (AMS) are the company's fastest-growing revenue segments. In AMS, we have generated average annual growth of 33 percent in recent years. The figure for managed cloud services is 22 percent, and the other recurring revenue segments of maintenance and cloud subscription are enjoying similar growth – although cloud subscription business is in the early stages of development, meaning it still accounts for a relatively small proportion of total revenues. This all helps to demonstrate the success that can be achieved through effective, target-oriented cooperation between a global division and the individual countries.

All four global functions have launched strategic initiatives with a view to advancing the divisions. Where are you concentrating your efforts at Global Managed Services? We undoubtedly have the advantage that our organization has been in place for almost four years, so we do not have to start from scratch. Following the introduction of the new management structure, however, we have reviewed our current initiatives and compared them with the other global functions in order to ensure that we are working in harmony. At the same time, our efforts relate less to entirely new ideas and more to continuous optimizations at a global and local level.

Can you give us some details? itelligence is pursuing a clear strategy of additionally addressing international customers in the large enterprise market. These customers expect us to deliver an innovative, global service portfolio. After all, with some small regional differences, a Volkswagen Golf or a Big Mac is near-identical irrespective of what country you are in. This is why we are striving to establish standardized global services for managed cloud, maintenance and AMS. The second priority is the finalization of our global delivery approach with off-shore and near-shore services. It is not enough for us to develop solutions in a global ivory tower – our national organizations need to be able to access these solutions efficiently and provide us with active feedback.

How are you paving the way for these developments? We need transparent cost rates and a global delivery platform with uniform methods, a global service infrastructure, user-friendly SLA reporting and scalable, cost-efficient right-shoring. Customers that are represented in several countries should have the same positive experience with itelligence in every market. Another important topic is partnerships with public infrastructure cloud providers with the aim of further increasing the flexibility and scalability of our service offering. These companies are globally positioned and expect itelligence to act as a central point of contact for the definition and implementation of a partnership that primarily reflects their operational benefit in the form of specific customer engagements at a national level.

To what extent do you have to take the cultural specifics of the individual countries into account when creating a uniform global organization? This is a challenge we naturally have to face. That said, as an established, well-drilled organization, cooperation within GMS and with the countries is extremely familiar to us. Although our global branches in more than 20 countries cannot be measured by the same yardstick, cultural and linguistic differences are less important when it comes to standardized services like the managed cloud, which are largely delivered remotely. However, they play a bigger role in AMS, as this area involves more intensive customer communication. In addition, some countries try to develop and deliver services as autonomously as possible, which can make it harder to realize global innovation, scalability and cost efficiency.

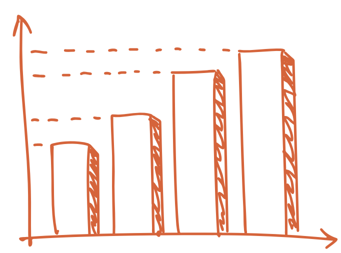
How do you deal with that? Firstly, we need to understand our role not only as an internal service provider, but also as a driver for innovation and growth for the countries and to demonstrate our value added through the successes we achieve together. Secondly, the standards of the market and our customers' requirements show that there is no alternative to a global organization when it comes to this business and its significant investments in infrastructure and increasingly short innovation cycles. This approach is additionally supported by the special characteristics of this segment, in which a majority of the relevant services can be performed remotely and virtually. Although there is naturally always some debate as to the benefits and responsibilities within the matrix, most countries have now realized that we can take the weight off their shoulders in many respects, allowing them to concentrate on winning new customers and developing their relationships with existing customers in particular.

What other services do you offer the countries when it comes to expanding their business? Our go-to-market support for topics such as cloud transition is increasingly bearing fruit. We collect expertise on the market, work in cooperation with analysts, conduct market studies and elaborate best practices together with our customers, thereby developing our portfolio through the efficient use of resources and strengthening the local Sales teams. Colleagues are given tools that enable them to sell and deliver more successfully. As an example, we concluded a partnership with Amazon for their cloud service AWS in the fourth quarter. AWS expressly requested a central contact person at itelligence to help establish the partnership efficiently.

Did you include the local companies in these processes? None of this would be possible without the support of our local colleagues. We always make sure to actively coordinate with the big countries in particular and record their requirements before entering into discussions with partners or suppliers, for example. And we provide support for these services, from service development and sales support through to delivery. Customer responsibility almost always lies with the respective country. I strongly suspect that this balance between active global guidance and support and the independence of the individual countries is one of the most important factors in ensuring the acceptance of a global function. And the joint success stories too, of course: winning customers together helps support the target attainment of a country and the global organization alike, making for a positive experience for all involved.

How do you achieve togetherness at a personal level? With service centers in numerous countries across three continents and various international customers and global partners, I travel a lot. As a manager, you can only achieve togetherness by also maintaining a local presence. I am supported by six divisional managers for global topics, from go-to-market, delivery and operations through to the data centers. In 2017, we also defined members of the management team as country sponsors for our core managed services countries. They are responsible for coordinating and supporting active contacts on GMS topics with their respective country. The establishment of this role represents a significant step forward in terms of our internal networking.

Have you adopted any strategic topics for 2018 alongside these organizational tasks? In addition to operational excellence, the further optimization of our competitiveness will be a top priority in the current year. These two aspects ultimately feed into almost all of our other initiatives. This includes a joint AMS task force with five core countries for further optimizing the AMS portfolioand delivery, as well as the analysis and external benchmarking of our global data center and cloud landscape. The success we have enjoyed in recent years speaks for what we have achieved, but we want to step up the pace even further in 2018. ■

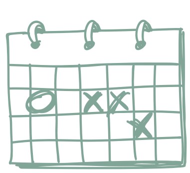


NICOLAJ VANG JESSEN **knows that in-house IT products give consulting firms a vital competitive advantage – both strategically and financially. As the head of itelligence's new it.products Global Busines Function, he is responsible for structuring the product range, focusing development and improving awareness of in-house solutions within the global organization.**

it.products is the fourth major pillar of itelligence's global strategy alongside sales, managed services and consulting. In this case, however, "major" describes the goal rather than the current situation. The plan is for a professional product organization to significantly increase sales of in-house software over the coming years. The man responsible for effecting this change is Nicolaj Vang Jessen from Denmark, who also serves as the head of itelligence's Nordics & Eastern Europe region. "My role as head of it.products means coordinating our worldwide product development and marketing our programs within the global organization."

The first phase involves the analysis and streamlining of the existing product portfolio – sometimes less is more. According to Vang Jessen, this also means prioritizing future development in order to concentrate on products with the ability to attract as many customers as possible every year. "We coordinate product development and ensure that the entire organization is focused and develops programs that offer our customers real value added." He adds that it is important not to address any problems that have already been resolved by itelligence consultants and developers in other countries, as this is the only way to increase efficiency.

STRUCTURED DEVELOPMENT AND MARKETING



Portfolio inventory and standardizing product development are just a few of his tasks, however – successful marketing is at least as important. In the past, experienced consultants have often developed a specific product for a certain area. Because they tended to be unfamiliar with the mechanisms of product marketing or did not have the necessary contacts within the organization, many products were only sold in other countries on an extremely limited basis. Volumes were small and there was almost no scaling. Vang Jessen: "Our aim is to systematically sell more of our best local products in other countries."

However, this can only be a success if it is built on a solid foundation of processes and tools in order to bring the products to every country, sell them, and hand them over to the customer with a high degree of quality. "Within the organization, we need the expertise to deliver a product developed in a different country," Vang Jessen notes. With this in mind, he is enabling local colleagues by developing marketing materials and product information, arranging global campaigns and organizing webinars. Vang Jessen is supported by a small virtual organization with four members in Europe. They look after sales and marketing, implementation and support, development and innovation, and portfolio, KPIs and costs.

In addition to an extended management team that is currently being established, each of the ten most important "focus products" has a dedicated product owner. One example of a globally successful focus product is it.mds (Master Data Simplified) for data maintenance. Developed in Denmark, it has now been sold to more than 70 customers in Scandinavia, the German-speaking region, Western Europe and the English-speaking countries. However, even good products need to move with the times – cloud compatibility and subscription models are also on Vang Jessen's transformation agenda. After all, in-house products need to be able to compete effectively at a global level, too. ■

REGION GERMANY/ AUSTRIA

Revenues 2017

383.0 MEUR

Change 2017

+14.4 %

View from the German Zugspitze towards Fern Pass (Austria)

THE JOURNEY TO ALPHAVILLE

Dr. Andreas Pauls and Klaus Strack have been jointly responsible for itelligence's Germany/Austria region since 2010. In this interview, they discuss how they organize their teamwork and why they have restructured a successful division.

Cooperation within the itelligence Group is the central theme of this annual report. You have jointly managed the Germany and Austria region for eight years with considerable success. How did you develop this togetherness? Strack We complement each other rather than standing in each other's way. Andreas Pauls used to be the head of Sales, while I was the head of Operations. As co-managing directors, we have retained these focal points, but we also have to be able to stand in for each other. We work in a spirit of mutual trust and respect each other's strengths and weaknesses. And ensuring transparency is one of the most important elements, of course. Pauls We have a basic understanding that each of us will do the right thing – even if we might have chosen a different path. People are different, but questioning a colleague's approach right from the start is no way to inspire confidence. Strack We have different personalities. Even when we take different approaches, though, we often have that moment of realization when we talk to each other and it turns out we have the same goal in mind. Debating hot topics usually benefits both parties. There are a lot of joint roles that don't work, but we quickly got to grips with ours. I would never think of putting my oar in where Sales is concerned. And even if I did, it would be to make a query rather than to impose a dogma.

itelligence is implementing a new management and governance structure within the Group this year with the global operating model. The German business unit also underwent extensive restructuring in 2017. What were the reasons for this? Pauls Various aspects of the German organization have been continuously optimized over the years. In 2016, however, we decided to examine some of the pillars of our business: how do we need to position ourselves for the next five years? What do we want to have achieved within the organization by 2021 in terms of our figures and our content? Armed with these fundamental questions and the support of the Management Board and external consultants, we launched the "Alphaville" project in 2017.

To what extent was this driven by economic concerns? Pauls There were no concerns in this respect. The organization was successful as it stood and there was no need to change things in response to weak figures, for example. The restructuring involved defining long-term targets and working out how to best position ourselves to achieve them. Strack We believe it is extremely important to see the project in a wider context. Back in 2013, we gave employees the opportunity to express their opinions on some fundamental issues: what form will the generational conflicts of the future take, how should we address Generation Y, how will the IT market and technologies change? This provided us with input for every possible facet of our environment. We wanted to give these aspects a face for the future and show that itelligence is state-of-the-art and creative in this area, too.

Can the German Alphaville project serve as a blueprint for global change? Pauls Many of the concepts and structural considerations are also relevant at a global level. The issues at hand are by no means limited to Germany. Every national organization of a certain size is faced with similar challenges: what is the best way to deal with the topic of customer responsibility, including in an increasingly dynamic customer-supplier environment, and what will cloud computing mean for customer retention? We have found answers to these questions that are already being applied in other countries or that could undoubtedly be adapted for this purpose.

How do you intend to implement the answers globally? Pauls We certainly have no plans to travel around the world and force our colleagues to use our model. That isn't what we understand by partnership and change. Rather than imposing our ideas as a decree from above, I prefer a process of cultural change accompanied by change management. Our employees see their work with itelligence as more than just a 9-to-5 job that they have to get out of the way before concentrating on their leisure time. 70 percent of our workforce is made up of academics with high expectations and demands in terms of their professional life. As such, you need to be able to make plausible arguments. **Strack** This is always the risk in a group that is shaped to a large extent by its home country. You have to be careful not to assume that your values can be applied automatically in other countries. For us, the important pointers were scalability, addressing modern technologies, explaining IT strategies to the customer, and presenting our value added and our entire portfolio. This relates to topics such as long-term customer relationships and our role as a full-service provider across all portfolio elements.

What are the consequences of the restructuring for employees within the organization? **Pauls** The new management structure and the "customer responsibility" cluster have brought with them a lot of changes for our employees. This has been accompanied by adjustments in areas such as project planning and scheduling, process reliability, quality, risk, and compliance. We have accepted that we can no longer do everything on demand. Our processes must be more stringent than in recent years. There are parallels with the new global operating model in this respect. **Strack** One of the reasons for the change is the high workload of our employees, many of whom found themselves continuously supporting their colleagues alongside their actual tasks. This is a sign of good teamplay and a healthy workplace culture, but it also means more work for the individual. This is why we decided to clearly define the relevant responsibilities and remove complex multi-matrix structures. And we were prepared to give up cherished standalone solutions of the past in favor of creating greater clarity and more space for new concepts.

The new organization went live officially in early February. What are the next steps? **Pauls** Following its official launch, a crucial phase has begun. In 2018, the primary task of the management is to ensure that the new workflows are brought to life and that we do not fall back into old habits. The only way to generate significant growth is by changing the way in which we work internally. After all, our customers should be able to feel the changes we have initiated with Alphaville and understand that itelligence is not a single player, but an innovative partner that meets its customers on an equal footing with expertise in every area of IT. **Strack** We can only breathe new life into our customer landscape if our employees buy into the spirit of change and appreciate the interesting perspectives it opens up for them. From Alphaville to the new global operating model, successful change depends on the optimism and positivity of those involved. ■

Dr. Andreas Pauls, Executive Vice President Global Sales, Head of SAP Business Unit Germany
Klaus Strack, Executive Vice President, Head of SAP Business Unit Germany

REGION WESTERN EUROPE

Revenues 2017

115.6 MEUR

Change 2017

+6.8 %

The Atomium, Brussels, Belgium

REGION

NORDICS & EASTERN EUROPE

Revenues 2017

172.3 MEUR

Change 2017

+12.8 %

Moskva river and Moscow Kremlin, Russia

DIVERSITY + TRUST = MORE OPPORTUNITIES

Diversity is the guiding principle in itelligence's Nordics & Eastern Europe (NEE) region, which is headed by Nicolaj Vang Jessen. Because the individual areas are so different, they complement each other well in many respects. The aim is to increase the value contribution for customers everywhere.

Systematic creativity is the basic principle behind LEGO, probably the world's most famous Danish brand. LEGO involves building your own project from lots and lots of different bricks and pieces. The challenge is coming up with a new blueprint every time. Nicolaj Vang Jessen was also faced with the challenge of developing a blueprint for combining the Scandinavian nations of Denmark, Sweden and Norway and the Eastern European nations of Poland, Hungary, the Czech Republic, Slovakia, Ukraine and Russia to form a cohesive region. Not to mention Turkey, a strong and experienced national organization within the itelligence Group. "Ultimately, there is no such thing as a homogeneous NEE region, but individual territories that overlap in many respects," explains Vang Jessen, who is responsible for the region as a whole.

The headline indicators can be combined, in any case: from Norway to Turkey, revenues of around MEUR 200 were generated by around 1,500 employees working with 800 client companies. However, the internal coordination between the individual nations already serves to illustrate their differences: "The Nordic countries work in extremely close cooperation and generate a lot of business together," Vang Jessen reports. For example, there are directors for Sales, Managed Services and Consulting for all three Scandinavian nations, and the links between employees extend throughout the national organizations. "By contrast, this cross-border cooperation is historically less pronounced in Eastern Europe, because the cultures of the individual nations are less similar and the boundaries between them have traditionally been higher."

The countries also differ in terms of the industries served by their customers, from the public sector and wholesale through to automotive. This reflects itelligence's wide-ranging content expertise, which Vang Jessen says is also true of technical trends: "For example, the cloud agenda is a lot more advanced in the Nordic countries than in Eastern Europe." However, demand for IT and business transformation services is consistently high throughout the region, ranging from hosting through cloud services to S/4HANA depending on the respective level of maturity.

"There are some benefits to having different regions under one roof, too," Vang Jessen adds. After all, itelligence's customers are increasingly international in their outlook. For many companies, the established structures with IT officers in Asia, Europe and the USA are increasingly being superseded by a single global landscape with one point of responsibility. "Our new organization will allow us to address this trend and deliver coordinated services in every country." The aim is to ensure that customers do not have to deal with different parts of itelligence, but a single professional institution.

For example, a major customer in Denmark recently commissioned itelligence with a rollout in Ukraine and Russia. "Cross-border tasks like this mean all of our employees need to be far more aware that we have colleagues in a total of 25 countries and that we can offer our full portfolio worldwide." In implementing the new regional structure, Vang Jessen is applying a management style that is second nature to him as a Scandinavian: "The only way to succeed in this task is by delegating responsibility to employees in the respective countries." Vang Jessen says he himself is good at bringing people together. "But I don't need to go into the details," he adds. The template is the cooperation between the regions and the new Global Business Functions (GBF) for Sales, Consulting, Managed Services and it.products: "We have all known each other for a number of years and trust each other implicitly." ■

WORKING TOGETHER TO BREAK DOWN BORDERS

Countries and regions are traditionally separated. This makes it all the more important to ensure smooth cooperation across those boundaries. Stefan Ellerbrake, head of itelligence's Western Europe region, reports on the borders within the organization – and the value of sitting down for a meal together.

Itelligence's Western Europe region celebrates a landmark birthday this year – it is now 20 years old. itelligence took its first steps from Germany into the rest of Western Europe one year before going public. Revenues have increased sixfold since 2008. Last year, almost MEUR 150 was generated by 660 employees in the region. Stefan Ellerbrake has been a key player in this expansion. In 1998, he founded itelligence Solutions Limited in the United Kingdom, managing the company until 2002. Since 2005, he has also been the head of the Western Europe region – as well as serving as Executive Vice President Global Consulting since the introduction of the new Global Business Functions in 2017.

Is this not something of a contradiction? "The Management Board has made a point of establishing dual functions in order to promote cooperation within the matrix organization," Ellerbrake explains, adding that this makes it quicker to achieve acceptance and easier to realize changes: "You are always in the same boat as the other Global Heads and regions." It is also clear that content-related cooperation within the company means breaking down rigid boundaries. "Working together with international customers requires us to make our overarching workflows more efficient and create the necessary freedom to develop a valuable solution for the customer." Ellerbrake adds that these standards must be reconciled with local requirements and, in some cases, with local egos. "After all, at least 30 percent of our business nowadays takes the form of international projects involving colleagues from different countries."

In addition to standardized processes and tools, this requires the personal cooperation to be just right. One important factor that is near-impossible to master using standards and tools is the cultural differences between the individual countries. For all the region of Western Europe may appear to be largely homogeneous, the way in which tasks are interpreted and addressed can vary significantly from country to country. This is precisely where Ellerbrake sees the strength of itelligence's set-up – the pursuit of specific standards accompanied by a comprehension of local cultural differences and a desire to harness them as something positive. "Within these international project teams, our project managers in particular are faced with the task of understanding the culture as well as the technology."

Despite growing internationalization, there remains a pronounced focus on the local companies, since they have the advantage of being able to deliver an agile response to trends in their country on account of their streamlined structures. However, Ellerbrake argues that success depends to a large extent on the quality of the local management team and the scalability of the local business: "It is important for us to have the right size in each market – big enough to offer consulting for SAP's comprehensive product range, but not so big that the personal contact between customers and employees is lost." The manager places great value on maintaining not only digital communication, but also intensive personal communication with the respective local contacts: "I try to spend one day a month in the countries so that I can talk to my colleagues and go out for dinner with them," he says, adding that this is more important than an office visit in many countries. "Close interpersonal contacts are essential when it comes to providing adequate support for a region."

The Western Europe region faces similar challenges to the German-speaking countries, with the potential for stronger growth often being curbed by a shortage of skilled professionals. "As a software-based consulting firm, we have to continuously defend our position against 'fashionable' companies like Google and small start-ups," Ellerbrake admits. Not easy for an SAP consulting partner whose business is implementing complex processes simply. "We have a lot of business opportunities but too little capacity," says Ellerbrake, adding: "We could easily add 100 experts in Western Europe this year for our SAP line-of-business solutions alone." In addition to targeted training programs and local appointments, it is important to learn how to work in virtual teams with colleagues from Eastern Europe and Asia. As Ellerbrake says, this is the only way to realistically balance capacity with demand in the medium term. "And it is never a bad idea to open yourself up to other people and cultures and work with colleagues from around the world."

REGION
NORTH AMERICA

Revenues 2017

145.2 MEUR

Change 2017

+7.0 %

The Niagara Falls at the international border between the United States and Canada

"KNOWING EACH OTHER WELL LEADS TO IMPROVED COOPERATION"

Steve Niesman has been the head of itelligence's North America region for 16 years. The region has long dictated the pace and the technological development of enterprise IT. And technology is evolving faster than ever before, as Niesman says in this interview: "Every company must be an IT company – now more than ever before."

Mr. Niesman, what business drivers are currently shaping your market environment in North America? Our customers' agenda is being driven first and foremost by digital transformation. Every company is looking for solutions that are easier for them to use and quicker for them to develop. They want to harness them in order to achieve a change in perspective within their organization, from a traditional internal view to a smooth interplay between systems and employees. Modern programs are more proactive than their predecessors. They give employees better information with which to make well-founded decisions in real time, thereby allowing them to provide optimal support for their customers.

What does this mean when it comes to providing these solutions? In North America, the IT consumer model is changing rapidly – more so than in Europe, in my view. Our customers are extremely open to the idea of cloud subscription, while the traditional on-premises model is losing traction. The reasons for this development are varied and by no means solely economic in nature. Cloud products are easier to implement and simpler to consume and bill. They are standardized, and allow users to take advantage of positive effects and differentiate themselves more quickly. In addition, software from the cloud is kept more frequently up-to-date by the provider, meaning that it always feels fresh and modern for the customer.

How is the pace of innovation in IT changing the working environment of your organization? We are just as affected by digital change as our customers. The evolution of IT with its rapid, continuous improvements is leading to more projects, smaller projects, more agile projects and quicker returns. Just think about smartphones: how often are new versions of operating systems and apps released? And when it comes to SAP's cloud products, updates are released every quarter rather than on a yearly or longer basis as used to be the case. IT never stands still; so we need to keep pace by continuously innovating.

Can you provide an example of how digitalization can transform a company? Generally speaking, this development affects companies from all industries. If you are a pump distributor, for example, you are expected to offer an Amazon-style customer experience and your employees are expected to work on innovations around the clock. If you neglect these aspects, you will soon be out of business – and not necessarily because your pumps were not good enough. Competition among companies in North America is immense, and suppliers that continuously seek to innovate and improve automatically enjoy greater business opportunities. If you fail to remain competitive in IT, however, a competitor – maybe from another region or another industry – will soon come along and knock you off your perch. Every company must be an IT company – now more than ever before.

How is itelligence itself being changed by its customers' digital transformation? In my mind, change is taking place at three main levels. In economic terms, our business model will evolve from on-premises business and revenues that are closely tied to expenditures into a subscription model with income spread over several years. From a services perspective, the cloud will mean more and smaller deals. This is changing the way we perform implementations. We need agile methods to allow us to interact with a growing number of projects and customers. However, this perspective is also what makes things interesting for our employees, and that is the third level. The speed of technical innovation and the sheer variety of opportunities for developing and mastering new skills are enabling our employees to continuously renew themselves. In other words, this development is opening up a wider range of career paths and offering fantastic possibilities for personal innovation.

itelligence's new governance structure is aimed at reducing the distance between the countries and employees. What do you expect from the initiative? The new structure will allow us to bring innovations to the market more quickly, share knowledge and best practices between the regions, develop more intellectual property in-house and open up consistent channels to the markets. It will make us more competitive because it will enable us to collaborate better, and share lessons learned while differentiating features and factors for success more quickly. Our business model will also be expanded, making it easier for us to serve our midmarket target group and approach also larger companies. We can scale ourselves to the market. For example, forming a global SAP practice from our many local SAP practices will give us a better chance of competing with large system integrators.

What exactly are your aims in this respect? Let us be under no illusions here: as a local itelligence unit with around 450 employees in North America, we can hardly be expected to keep up with a company like Accenture when it comes to innovation. The only way we can have a chance is by bundling our experiences and ideas and applying best practices globally within and across our organization. The basis for cooperation, innovation and solution distribution is a structure that allows us to develop innovations a lot more quickly. I am convinced that the governance structure is more than just "nice to have" – it is absolutely essential.

itelligence North America also includes the offshoring business in India with around 1,500 employees. How do you achieve a strong connection between these employees and their colleagues in the USA and Canada? When you work with people in different cultures and different time zones, you need established processes. It doesn't just happen by magic and there are no easy shortcuts. The key is global functions and structures as well as systems, tools and workflows geared toward supporting and promoting cooperation. As such, the global governance structure will serve us well – not only in terms of the relationship between India and the USA, but also between Turkey and Spain or between Germany and Houston, Texas. Employees also need to be trained in cultural attributes and brought together so that they can meet face-to-face, shake hands and establish a human connection. Knowing each other well leads to improved cooperation. This is how you bring a global structure to life.

How important is employee culture for the governance structure? We should not underestimate the aspect of personal networking. I believe the members of the millennial generation want to work for companies that are active around the world, that can offer them international positions and that facilitate easy cooperation with colleagues and mentors. This is why I also see the new governance structure as a competitive advantage when it comes to employee retention, e-recruiting and personal staff development. Making it easier to use the knowledge from all our regions will help our employees to learn more and become more valuable to the market. Money is not the primary motivator – people also want to connect with each other. And if we can benefit from the expertise of our colleagues in Singapore or the Netherlands, or vice versa, then that is pretty cool. ■

Steve Niesman, Executive Vice President
Head of North America

ASIA-PACIFIC AREA

Revenues 2017

14.3 MEUR

Change 2017

+14.4 %

The Petronas Towers, Kuala Lumpur, Malaysia

FLAGSHIPS FOR NEW STRATEGIES

Asia is a market that cannot be ignored. Lone warriors have no chance – the region is simply too varied for that. itelligence COO Uwe Bohnhorst is working to harmonize the structures of the national subsidiaries and combine the regional units of itelligence and NTT DATA Business Solutions in order to nurture their national strengths. The aim: for everyone in the enlarged region to benefit.

Asia-Pacific (APAC) is not really a region at all, but a vast area of the globe. There are 10,000 kilometers between the locations in Brisbane (Australia) and Hyderabad (India). The countries of India, China and Indonesia alone now have a combined population of around three billion, and all seven countries in which itelligence is represented are home to religious and cultural differences and varying degrees of economic and technical maturity.

Uwe Bohnhorst, itelligence COO and co-CEO of the APAC region together with Max White, is responsible for bringing the different countries closer together within the optimized Asia strategy. "It makes sense for many decisions in the region to be taken locally," says Bohnhorst. "However, a lot of aspects were being addressed by different countries simultaneously – sometimes redundantly, sometimes at different speeds." With this in mind, the aim is to coordinate certain topics regionally in order to transport them to the market more quickly and more consistently and to strengthen itelligence's presence and perception in the region when it comes to S/4HANA and the cloud.

Bohnhorst is very familiar with Asia and has just returned from a trip to China and Malaysia. NTT DATA has involved him in acquisitions and establishing SAP expertise in the region on several occasions since 2009, including at companies in Singapore, Malaysia, and Australia. In his role as non-executive director on the Board of NTT DATA Business Solutions, the manager has also supported the acquisition, integration and merger of the individual companies to form a single region. As such, he was an obvious choice to be given responsibility for combining the two sub-regions, which generated total revenues of around MEUR 66 in 2017.

Bohnhorst has been the COO of a global organization for the past twelve years, so restructuring is nothing new for him. "But as a regional head, it is good to experience the other side of cooperation, too." He adds that this joint role is one of the advantages of the new organization with its Global Business Functions (GBF): "The idea is to prevent any competition between regional and global units. We all have the same objective and need to reach an arrangement that suits everybody." This was also what he had to do with his Australian co-CEO for the APAC region, Max White, who will retire next year. "Max was responsible for building up NTT DATA Business Solutions APAC, and my aim is to integrate itelligence's national subsidiaries in China and India and develop this region in the same vein." Although they come from different companies and cultural backgrounds, they share the same mindset in many respects. "We have known each other for many years and have always worked in close cooperation despite the geographical distance between us."

Although China and India overshadow all others in terms of population, every country in the region is important to Bohnhorst. For example, Indonesia, with a population of more than 250 million, is a large market with a young population where many companies are currently establishing production facilities. Malaysia has well-trained IT specialists, and itelligence has a well-drilled organization in the country thanks to its data center in Kuala Lumpur. By contrast, Bohnhorst describes Australia as a difficult market at present, although it remains the country in the region with the highest level of IT investment and is a pioneer for new technologies like cloud ERP to a certain extent. The same is true of India and the country's rapid technological development:

"Companies skip entire IT generations and directly start with cloud systems, such as SAP S/4HANA," Bohnhorst reports. Finally, China is important from a geostrategic perspective: the Middle Kingdom started out as the extended workbench of the western world and a lucrative sales market for western goods. However, local companies like Huawei, Lenovo and Alibaba have since established themselves as global players, emerging from their domestic market and offering their products in other continents. "Companies have invested a great deal in technology and IT innovations and are now in the process of conquering the global markets," says Bohnhorst. itelligence China is a good example of this process. The national subsidiary used to benefit greatly from German companies looking to open branches or plants in China and roll out their SAP systems in the country. "Now we are seeing an extremely high level of demand among Chinese companies seeking to implement SAP in order to address global markets."

Over the years, Chinese customers and their projects have also developed into an innovation driver for itelligence China, thereby providing a valuable source of expertise for the organization. "Because Chinese companies are making significant investments at the interface between production and IT, itelligence has developed a great deal of expertise in the area of supply chain optimization and product lifecycle management." With this in mind, Bohnhorst is also working on ensuring that each country in the APAC region covers a specific domain of expertise that it can contribute to the entire region. "We need multi-lane highways, not one-way streets." For example, India specializes in the delivery and packaging of IT solutions in an off-shoring context, Malaysia is strong when it comes to cloud solutions and automotive, while Australia offers considerable expertise in the area of analytics and big data. "Each country must play its own particular role. Successful cooperation relies on giving and taking." As Bohnhorst adds, this process is by no means restricted to the APAC region: "Although APAC is geographically far removed from Europe, the strategies being developed there will ultimately benefit the entire group." ■

itelligence APAC

itelligence's Asia-Pacific (APAC) region is a heterogeneous organization consisting of various companies. The "itelligence Asia" unit, which comprises the Chinese company and the local business in India, reports directly to itelligence COO Uwe Bohnhorst. NTT DATA Business Solutions APAC has national subsidiaries in Malaysia, Singapore, Indonesia, the Philippines, and Australia. This unit is controlled by and reports to itelligence and operates within the same division and business model, but belongs to NTT DATA. Uwe Bohnhorst and the Australian co-CEO Max White are responsible for bringing the individual countries in the region closer together in order to create one single region.

Uwe Bohnhorst, Executive Vice President, Chief Operating Officer (COO), Co-Head of APAC

A small patch with a big impact – the victory of the Farmbot project at NTT DATA's global innovation competition in Barcelona shows that disruptive innovations can succeed when experts enter into an open dialog with colleagues from different disciplines in order to break down barriers.

WHEN INNOVATION GROWS OUT OF IDEAS

Dynamite, Red Bull, Popsicle: very few successful innovations are truly the result of happy coincidence. Most innovations need time to mature slowly – and this adage holds true today just as it did 100 years ago. All that has changed is the way in which ideas become market-ready innovations. The tinker in his ivory tower is a thing of the past. Today, teamwork is the key. Open innovation means moving from the silo to the laboratory.

Dries Guth took advantage of the freedom at his disposal to develop an idea into a specific product – with the help of the available technologies and his colleagues' expertise. When it came to the "Farmbot Network", he benefited from the fact that, as the manager of itelligence's IoT innovation lab in Germany, he is responsible for instigating innovative projects in the areas of IoT, blockchain and machine learning in close cooperation with other innovation labs in Aachen, Berlin, Bielefeld and Munich in particular. "Last year, we worked as a consultant for various seed producers and manufacturers of agricultural machinery. That is where the idea first came to me," Guth recalls. The huge growth potential within the farming industry certainly did not hurt.

The Farmbot Network is based on a bot developed in Silicon Valley, as Guth explains. "We contacted the developers and purchased a prototype." The "farm" in question is a small patch, three meters by two meters in size. The farmbot moves across the patch and takes care of every aspect of cultivating the crop plants, from sowing and watering through to fertilization. A small camera and image recognition technology are used to regularly check the plants' development. Harvesting the crops is the only step in the process that requires human involvement.

Of course, the relevant manufacturers of agricultural machinery have also been pursuing the automation of agriculture for a number of years. "But what makes farmbots exciting is that they can be used like an entirely self-sufficient, autonomous black box," Guth explains. Like in the smart city of the future, for example, for growing vegetables on the roofs of high-rise buildings. Or in vertical farming, where fruit and vegetables are grown industrially for the residents of conurbations. Forecasts suggest that around seven billion people will live in cities by 2050, with megacities of more than ten million inhabitants accounting for a large proportion of this figure. As such, it came as no surprise that John Deere acquired a Californian farmbot company for 305 million dollars last fall.

When it comes to industrialization, the Farmbot Network has one particularly useful trick up its sleeve: the bots are controlled using SAP. The SAP Cloud Platform is combined with components from the SAP Leonardo portfolio for IoT, machine learning and blockchain. Guth cites a practical example: artificial intelligence and cameras are used to detect and treat crop diseases affecting individual plants. "Everything we need is essentially already available. All it needs is a smart combination to generate real value added." However, there is no one person with all of the necessary expertise – and open exchange is essential when it comes to driving complex innovations. The farmbot concept benefited from the acquisition of the Dutch SAP consulting firm Goldfish ICT in 2017, as its employees had a great deal of experience in the food and agricultural sector. "Together, we successfully combined the ideas from both sides in a kind of post-merger integration and established the basis for developing the Farmbot Network innovation project." The fact that many of the ideas had already taken root in various parts of the organization was not enough to achieve a breakthrough in itself, as Guth explains: "The key to success was cross-departmental cooperation."

The groundwork for this cooperation was undertaken by Mark Albrecht, Global Head of Innovation at itelligence: "An innovation-friendly climate cannot be created from nothing simply by launching an innovation competition, but needs to be cultivated with a great deal of patience." Albrecht has been actively addressing experts at the national subsidiaries for a number of years with a view to identifying creative inspiration and establishing a global innovation community. Over time, this has given rise to an agile, innovation-friendly climate that encourages and demands creative solutions and reinforces the principles of cross-departmental cooperation. In addition to experts from Germany and the Netherlands, the Farmbot Network included colleagues from Scandinavia with blockchain expertise and SAP employees from Walldorf specializing in the agriculture sector. Albrecht: "With the Farmbot Network's victory in the competition, we have succeeded in breaking down existing structures within the Group and achieving solution-oriented cooperation."

Albrecht is also keen to demonstrate the potential of SAP's programs outside the ERP environment. In Japan, standard software faces a challenging market situation because local companies tend to prefer customized solutions. "We have done a lot of background work and showed customers what SAP can manage and how it can be used to address new markets." The victory of the SAP-controlled farmbot in the global NTT DATA competition in

Barcelona represented an important breakthrough in this respect, and the second itelligence team in the contest also developed a promising SAP solution that goes far beyond the traditional consulting portfolio. Innovation manager Albrecht has no doubt in his mind: "The SAP technology that is available today can be used to solve many problems of the future." And the flexible innovation platform SAP Leonardo seems especially predestined to help achieve this. ■

Mark Albrecht, Vice President, Global Head of Innovation
Dries Guth, Principal Innovation Manager Innovation & Portfolio

NTT DATA Hackathon competition

Following an internal preselection involving a total of eleven projects, a jury headed by the German innovation manager Mark Albrecht selected two teams to represent itelligence at the final in Barcelona. NTT DATA's global innovation prize for 2017 was organized as a "hackathon" – a creative process lasting 36 hours with the aim of developing prototypes and software in a direct competition among 14 teams from all of the NTT DATA units. The farmbot team made a big impression with its compelling vision. In addition to mastering technological challenges, the team emphasized its visionary approach to solving the problems of the future. The jury comprised NTT DATA's global head of R&D, the global head of innovation and the Japanese head of R&D, as well as an innovation manager from the Spanish Everis Group and two external experts.

The winning "Farmbot Network" team was invited to attend NTT's global innovation and customer conference in Tokyo in mid-February. The global NTT R&D innovation forum was held at the same time. "We had the opportunity to present our farmbot to Dr. Tsuyoshi Kitani, EVP, Technology and Innovation GHQ, and the global CTOs," recalls Dries Guth, who came up with the idea for the farmbot project. He sees the positive feedback and the pledge to pursue global cooperation in order to establish a sustainable digital farming platform as an indication of the huge growth potential in this young business segment. And his targets are ambitious: "By detailing our go-to market and strategically positioning the Farmbot Network as a digital platform, we intend to establish ourselves as a global IT system integrator for digital agricultural processes."

REPORT OF THE SUPERVISORY BOARD

LADIES AND GENTLEMEN, DEAR FRIENDS OF THE COMPANY,

itelligence AG can look back on a successful fiscal year 2017 that was characterized by extraordinarily strong growth. At the start of the year, we were forecasting revenues of MEUR 820-830. Instead, we closed the fiscal year with revenues in excess of MEUR 870. This excellent performance clearly underlines itelligence's strong market positioning. In terms of our earnings, EBITA increased to MEUR 44.1 after MEUR 42.2 in the previous year. Even in light of current market developments, we can be satisfied with our performance. Our aim for the coming years remains to expand our dynamic growth and become even more profitable as our customers' business models become increasingly digitalized.

In the 2017 fiscal year, the Supervisory Board again 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 also voted on the reports and proposed resolutions by the Management Board following a detailed examination and discussion.

In all cases, the reporting by the Management Board met the requirements of the Supervisory Board in full. 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. 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 potential future scenarios 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 six meetings in fiscal year 2017. 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 2016
2. Commissioning of KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as auditor for fiscal year 2017
3. Budget definition and budget review for 2017
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 2017, the Audit Committee met on March 14, July 3, and December 7. 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 compliance issues.

The Personnel Committee met on December 7 to discuss matters relating to employee development, the integration process for acquired companies, and developments in the management team and the management structure.

The Strategy Committee also met on March 14, June 20, and December 7, where it primarily discussed investments and acquisitions as well as the optimization and reorganization projects initiated at the Company. It also discussed the Company's focus within the NTT DATA Group.

The Annual General Meeting on March 15, 2017, resolved on the appropriation of the unappropriated surplus, the approval of the actions of the members of the Management Board and the Supervisory Board, and the election of the auditor of the single-entity and consolidated financial statements for fiscal year 2017.

In addition, an Extraordinary General Meeting on October 12, 2017, appointed Mr. Ken Tsuchihashi, Director and Chairman of NTT DATA EMEA Ltd., London, to the Supervisory Board as a shareholder representative. He replaces Tadashi Uhira, to whom the Supervisory Board would like to express its heartfelt gratitude for his work on the Supervisory Board of itelligence AG and his 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 2017. 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 8, 2017, 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.

Friedrich Fleischmann, Chairman of the Supervisory Board

The Annual General Meeting on March 15, 2017, elected KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as the auditor of the single-entity and consolidated financial statements for fiscal year 2017. KPMG had previously declared to the Chairman of 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 and the consolidated financial statements and the management reports of itelligence AG and the itelligence Group in detail. As stated in its unqualified audit opinions, these examinations 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,
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 20, 2018, the Audit Committee discussed the single-entity and consolidated financial statements for 2017 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 21, 2018, 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 therefore approved the findings of the audit by KPMG. The Supervisory Board 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, 2017, 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 further positive development of the itelligence Group together with the Management Board. In particular, the Supervisory Board would like to thank the employees around the world and the members of the Management Board for their high level of personal commitment and performance in a dynamic and challenging market environment. They have all made a major contribution to another extremely successful year of business for itelligence. ■

Bielefeld, March 21, 2018
For the Supervisory Board

Friedrich Fleischmann
Chairman

CORPORATE GOVERNANCE REPORT 2017

The Management Board and the Supervisory Board of itelligence AG attach great importance to 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. The implementation of these principles is intended to stabilize 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 2017.

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 8, 2017. 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 February 7, 2017, 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 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 2017. As in the previous years, this involved a particular focus on 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 two members: Norbert Rotter (CEO) and Dr. Michael Dorin (CFO). There were no conflicts of interest within the Management Board in 2017.

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 2017. There were no conflicts of interest within the Supervisory Board in 2017.

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 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 the central communication instrument and is available in various languages, reflecting the Company's international 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 2017 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 (Aktiengesetz), 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 2017 financial year and will continue to do so in future based on the version of the German Corporate Governance Code last amended on February 7, 2017, 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 no longer apply to itelligence AG.

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

SECTION 4.2.3, PARA. 4: 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 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 PARA. 3 AND 4: DISCLOSURE OF THE COMPENSATION OF MANAGEMENT BOARD MEMBERS IN THE COMPENSATION REPORT

"The total compensation for a Management Board member shall be disclosed by name, divided by fixed and variable compensation elements. The same applies for commitments to benefits which are granted to a Management Board member in case of premature or regular termination of work as a Management Board member or which have been amended during the fiscal year.

In addition, 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 paragraphs 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 paragraphs 3 and 4 as well as the model tables provided in the appendix to the Code shall apply 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, the 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 by the Supervisory Board 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 AND WORKING OUT A PROFILE OF SKILLS AND EXPERTISE FOR THE ENTIRE BOARD

"The Supervisory Board shall specify concrete objectives regarding its composition and shall prepare a profile of skills and expertise for the entire board. For its composition, whilst considering the specifics of the enterprise, it should give appropriate consideration to 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. The particular provisions of the acts on co-determination are to be observed for the chosen employee representatives.

In listed companies for which the Co-determination Act, the Co-determination Act for the Iron and Steel Industry or the Co-determination Extension Act apply, the Supervisory Board shall comprise at least 30% women and at least 30% men. In other companies covered by the Equality Act the Supervisory Board shall determine targets for the proportion of women.

Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account and at the same time strive to fill the competence profile for the full body. The status of the implementation shall be published in the Corporate Governance Report. It shall also provide information about what the Supervisory Board considers the appropriate number of independent members of shareholders and the names of these members.

For its proposals for the selection of new members of the Supervisory Board to the General Meeting, the Supervisory Board shall make sure that the particular candidate can afford the expected time expenditure. The candidate proposal should have a CV attached, which provides information about relevant knowledge, skills and experience; this should be supplemented by an overview of the essential activities alongside the Supervisory Board mandate and published with updates annually for all members of the Supervisory Board on the company's website."

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. No profile of skills and expertise will be worked out for the entire Board. Hence, there will be no publication of the objective and the state of implementation as well as the Supervisory Board's estimate of an appropriate number of independent members of shareholders and the names of these members in the Corporate Governance Report.

A specification and publication of concrete objectives and their periodical amendment as well as working out a profile of skills and expertise for the entire Board 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 proportion of women in the Supervisory Board and the reporting thereon in the Management Report. Since no more public General Meetings are carried out by itelligence AG, the election proposals and CVs of the candidates will not be published separately.

SECTION 6.2: TRANSPARENCY AND FINANCIAL CALENDAR; SECTION 7.1.1 AND 7.1.2: FINANCIAL REPORTING AND AUDITING

Section 6.2 "Within the framework of ongoing public relations work, the dates of publications of the Annual Reports and interim financial information as well as the General Meeting, of financial statement press and analysts' conferences shall be published in a 'financial calendar' sufficient time in advance on the company's website."

Section 7.1.1 "Shareholders and third parties shall be informed by the consolidated financial statement and the group management report as well as the interim financial information. If the company is not obligated to publish quarterly communications, it shall inform the shareholders during the year alongside the half-year financial report about essential changes to the business developments as well as the risk situation in a suitable form."

Section 7.1.2 "The consolidated financial statement and the group management report shall be drawn up by the Board of Management and audited by the annual auditor as well as the Supervisory Board. The Board of Management shall discuss the interim financial information with the Supervisory Board or its audit committee before publication. The consolidated financial statement and the group management report shall be made accessible to the public within 90 days after the end of the financial year, the obligatory interim financial information within 45 days after the end of the reporting period."

itelligence AG does not publish a "financial calendar" and does not conduct financial statement 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 either. The public will be informed about the course of business of itelligence AG through the annual report, the half-year report and press releases. Press releases are published on the itelligence AG website. itelligence AG no longer publishes quarterly reports or interim reports. itelligence AG no longer publishes other interim financial reports such as ad-hoc notifications. The company's website is the central communication instrument. Since no interim financial information will be published alongside the half-year report, any discussion of the same with the Supervisory Board or the audit committee shall also not take place before publication. ■

Bielefeld, December 8, 2017
itelligence AG

For the Board of Management Norbert Rotter	For the Supervisory Board Friedrich Fleischmann

GROUP MANAGEMENT REPORT

FOR FISCAL YEAR 2017

KEY FIGURES IN FISCAL YEAR 2017

CONSOLIDATED REVENUES RISE 12.1% TO MEUR 872.2

— Organic growth stands at 8.8%
— Revenues up 5.1% as a result of acquisitions
— Revenue distribution: 55.3% outside Germany, 44.7% within Germany

EARNINGS BEFORE INTEREST, TAXES AND AMORTIZATION (EBITA) RISE 4.5%,FROM MEUR 42.2 TO MEUR 44.1. EARNINGS BEFORE INTEREST AND TAXES (EBIT) AT MEUR 33.8 AFTER MEUR 34.9 IN PREVIOUS YEAR

— EBITA margin for 2017 as a whole amounts to 5.1% (previous year: 5.4%)
— EBIT margin for 2017 as a whole amounts to 3.9% (previous year: 4.5%)

SIGNIFICANT GROWTH IN ORDERS ON HAND

— Orders on hand up 20.2%, from MEUR 771.7 at end of 2016 to MEUR 927.8 on December 31, 2017
— Non-current orders on hand account for MEUR 221.3 (previous year: MEUR 152.4)

NUMBER OF EMPLOYEES INCREASES BY 23.0% TO 6,983 (PREVIOUS YEAR: 5,677)

— Addition of 506 employees through new appointments and a further 800 employees through acquisitions
— Integration begins for the acquisitions Goldfish ICT in the Netherlands and vCentric Technologies in India

FORECAST FOR 2018 AS A WHOLE

— Revenues forecast at MEUR 920 – 930
— itelligence aims for continued organic and inorganic growth
— Improvement in EBITA margin to around 5.5% and EBIT margin to around 5.0% expected

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. Today, itelligence operates at 76 locations in 24 countries, supporting more than 6,000 customers.

itelligence focuses on the sale of usage rights for SAP software solutions for midmarket companies and SAP consulting. For customers, itelligence sees itself as 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 configure 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 and Switzerland), Western Europe (Spain, France, Belgium, Netherlands, United Kingdom, Ireland, Denmark, Norway, Sweden), Eastern Europe (Russia, Ukraine, Poland, Czech Republic, Hungary, Slovakia, Turkey), America (USA, Canada, Qatar, India) and Asia (China, Malaysia).

Including the companies acquired in 2017, the organizational structure of the itelligence Group encompasses a total of 44 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.

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 managed cloud and application management services for more than 4,000 customers from 22 local service centers, supported by seven 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. This unit networks the various internal competence centers and develops and drives 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.

GROWTH STRATEGIES

itelligence'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.

itelligence's customers are faced with intensive global competition and must permanently adjust to a highly dynamic environment. Accordingly, continuous improvements to internal structures and the value chain are extremely important. itelligence sees itself as a strategic partner that supports its customers in their challenges with innovative IT solutions. 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

CONTROL 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 presented under II.5.

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. itelligence offers these products and services around the world. Alongside Germany, itelligence has a long-established market presence in Western Europe, Eastern Europe, America, and Asia. As has been done successfully in the past, this extremely strong market position will be expanded in the future through both organic growth and targeted acquisitions.

ACQUISITIONS

itelligence recorded further growth in fiscal year 2017, 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 Benelux acquires Goldfish ICT
itelligence AG is strengthening its market presence in the Benelux region. In June 2017, it announced the 100% acquisition of Goldfish ICT by itelligence Benelux Holding, meaning that Goldfish ICT became a part of the itelligence Group. This acquisition serves to expand itelligence's market position in the Benelux countries and makes it one of the leading SAP partners in the region. Meanwhile, Goldfish ICT will gain access to itelligence's extensive global SAP expertise.

The acquisition gives itelligence access to interesting customers with growth potential, particularly from the pharmaceutical, life sciences and agriculture sectors. itelligence's SAP portfolio offers enormous innovation potential for the new Benelux customers in these market segments.

Goldfish ICT was founded in 2000 and has become a full-service provider, offering process and IT consulting based on SAP solutions as well as an extensive range of managed services. Around 70 employees provide high-profile customers with consulting services for national and international roll-outs, particularly in the food, agriculture, life sciences and chemical sectors.

itelligence India acquires Indian SAP consulting firm vCentric Technologies
itelligence pressed ahead with its continuous growth strategy in 2017, announcing the 100% acquisition of vCentric Technologies Private Limited, Hyderabad, India, in October 2017. The acquisition of vCentric represents the first step in itelligence's further strategic growth in the local Indian IT market. With more than 1,300 employees, itelligence is one of the leading SAP partners on the subcontinent.

vCentric has extensive SAP expertise and a broad customer base. As well as being named SAP Partner of the Year for the last three years, SAP recognized vCentric as a Digital Business Partner in April 2017 and an SAP Recognized Expert Partner (DM&LT) in May 2017.

PARTNERSHIPS

Partnerships are central to itelligence's business model. itelligence's focus is on its customers. With more than 6,000 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.

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

In February 2017, itelligence received another major accolade from SAP SE. itelligence AG was granted the status of SAP Hybris Gold Partner, making it one of 32 companies with this status. itelligence achieved Gold Partner qualification because of the large number of Certified Professionals for the SAP Hybris portfolio and SAP Hybris Business Management in the NTT DATA Group, among other things. In total, more than 180 experts in SAP Hybris solutions and Customer Engagement and Commerce (CEC) are involved in customer projects on behalf of itelligence and NTT DATA around the world. One of the team's main strengths is its expertise in the integration of CEC solutions within the SAP solution portfolio.

In March 2017, SAP Hybris announced that itelligence had received the SAP Hybris 2017 SMB Partner of the Year Award. Awards were presented by SAP Hybris to leading partners that made outstanding contributions to driving customers' digital transformation in 2016. Recipients of this year's awards have worked in partnership with SAP Hybris to help organizations to adapt innovations more easily in order to attract and retain customers and grow a profitable customer base.

The award recognizes itelligence AG for participating in more than 20 SAP Hybris projects around the world involving the entire product portfolio, both on-premises and in the cloud.

Selected from SAP Hybris's broad partner ecosystem, nominations for the SAP Hybris Partner of the Year Awards were based on internal SAP data. A jury composed of regional and global SAP Hybris representatives determined the winners in each category according to a number of criteria, including joint sales success, customer case studies and consultant certifications. The awards were presented in various categories – including overall partner performance – broken down by geographical location, innovation, service delivery and newcomers.

In May 2017, itelligence reported a double achievement. It received the SAP Pinnacle Award for 2017 as SAP S/4HANA Partner of the Year – Small and Midsize Companies – and Digital Marketing Momentum Partner of the Year. itelligence was also named as a finalist in the categories SAP Hybris Partner of the Year – Small and Midsize Companies – and Platform Reseller of the Year.

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 hence 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. Each category contains a Customers' Choice Award (an SAP partner nominated by the customer).

itelligence AG has been one of the closest partners and most successful SAP consulting firms for the midmarket for over 26 years. The SAP Pinnacle Awards reward the most remarkable achievements by SAP partners and acknowledge their dedication to teamwork, their innovative approaches and their capacity to intensively support customers in achieving their goals.

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 Deutschland GmbH and itelligence AG jointly achieved fifth place in the "Lünendonk List 2017", which was published in July 2017. The two IT consulting firms under the NTT DATA umbrella were thereby ranked among the best IT consulting and system integration companies in Germany. This is underlined by their rapid growth: Compared with 2016, the IT consultant achieved revenue growth of 18.2 percent – one of the highest growth rates of any of the companies rated by Lünendonk & Hossenfelder.

Lünendonk & Hossenfelder GmbH has been rating the leading German service providers for over 20 years, publishing the results in its annual "Lünendonk Lists". NTT DATA Deutschland GmbH and itelligence AG were rated together for the first time in the Lünendonk List 2016.

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
In October 2017, itelligence AG announced its strategic partnership with Amazon Web Services (AWS) at a global level. The aim is to offer customers solutions for migrating, implementing, monitoring, managing and optimizing their entire workload via the SAP HANA platform, SAP Hybris Commerce and SAP S/4HANA on AWS.

The joint itelligence and AWS solutions include the complete migration of SAP S/4HANA and other SAP solutions to AWS and the provision of fully managed services by itelligence on AWS. Corresponding scenarios with proofs of concept for all SAP solutions based on AWS services are already available.

The solutions will enable customers to seamlessly integrate AWS services into their SAP software strategy and run end-to-end managed services for SAP S/4HANA on AWS. For web-focused eCommerce platforms like SAP Hybris Commerce, itelligence and AWS provide a joint solution with increased flexibility. Thanks to the proofs of concept and smooth switching between itelligence and AWS, customers can obtain a quick overview, generate forecasts more quickly and free up the corresponding resources in order to focus on innovation.

itelligence is also standardizing AWS for the business continuity/disaster recovery (DR) strategy. This enables customers to use AWS to mitigate the risk to their SAP workload within their data centers with full support from itelligence. At the same time, itelligence can offer additional DR functions and services from its own hosting centers in more countries.

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 that are 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 choose suitable partners for their SAP projects.

For its process models, the expertise of its employees 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 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.

ITELLIGENCE'S CUSTOMER PROJECTS AND DEVELOPMENTS

Licensing and Consulting

2017 was a successful year for itelligence AG that again included numerous SAP awards and innovative customer projects. itelligence's new customers rely on the in-depth industry expertise and SAP know-how of its consultants.

One major new customer is the ACO Group, Büdelsdorf, a global market leader for drainage technology. ACO adopts an end-to-end approach to professional drainage, economical cleaning and the controlled runoff or reuse of water. Following a pre-project phase, the international ACO Group, which has production sites in countries including Germany, the Czech Republic and the United Kingdom, opted to initiate the implementation project for migrating its current enterprise software proAlpha to SAP S/4HANA with itelligence AG. S/4HANA is being implemented as a growing template and will support business processes in all of ACO's major production companies following its successful launch in 2021. The first go-live is scheduled for January 1, 2019.

Global Managed Services

Three years on from the combination of the activities and the corresponding organizations for hosting/managed cloud, AMS and maintenance services under the banner of Global Managed Services, activities in 2017 focused on the continuous expansion of the business and two additional aspects in particular:

— the continued, intensified implementation of the planned cloud transformation in private, public and hybrid cloud environments
— the integration of BIT.Group, which was acquired in mid-2016, and its almost 400 employees for AMS and cloud infrastructure services into the area of Global Managed Services

In order to meet the requirements of the markets and its customers with regard to cloud transformation, itelligence conducted a dedicated project to optimize and globalize its own data center infrastructure in 2017. Core targets continue to include the modernization of the infrastructure in cooperation with hardware partners, process optimizations, and the development of a cloud management platform.

In addition, Global Managed Services has defined scenarios for cooperation with leading IaaS (Infrastructure as a Service) hyperscalers (leading providers) such as AWS (Amazon Web Services), Azure (Microsoft) and GCP (Google Cloud Platform) and announced a strategic partnership with AWS in October. Alongside the existing partnerships with the NTT subsidiaries, this has significantly improved its flexibility and scalability in terms of geographical and portfolio-relevant aspects and allowed it to address an additional customer base.

Another key milestone in the implementation of the Cloud Strategy 2020 was and remains the integration of Cloud Infrastructure Services. This business segment, which has over 100 employees in Germany and China, is an important element of the integrated BIT.Group. It allows itelligence to offer a comprehensive and innovative range of managed cloud services, from physical infrastructure and cloud infrastructure management through to delivery services.

The acquisition of BIT.Group has further intensified itelligence AG's relationship with its most important partner, SAP SE. In addition to the aforementioned business segment and successful customer relationships in AMS and application lifecycle management, including SAP Solution Manager topics, BIT.Group has been involved in various SAP orders for over ten years with great success. itelligence will continue to expand these partnerships in the future.

2017 was also a successful year for the Global Managed Services organization from a growth perspective. AMS, managed cloud and maintenance business again recorded double-digit growth to MEUR 408.5 (previous year: MEUR 360.2) accompanied by stable profitability, increasing its share of total revenues from 46.3% to 46.8%. The aim is for recurring business to account for 50% of revenues.

Together with the national organizations, Global Managed Services will continue to work on improving competitiveness by increasing cost efficiency and optimizing and expanding its service portfolio. In addition to the aforementioned focus on customers' cloud transformation, activities have commenced in the area of innovation management with a view to the role, definition and implementation of managed services in the future IoT (Internet of Things) environment.

International Sales & Operations

itelligence's customers need to digitalize in order to keep pace with the global competition. All of itelligence's customers use SAP software, and the majority of them have built their IT strategies around SAP in the past years and decades. Now they are faced with the important issue of how to integrate the investments they have made in their business applications and processes into their transformation plans.

The main question is "how?":

— How to approach their digital transformation and how to implement it?
— How to obtain the maximum benefit from their digitalization strategy?
— How to ensure that all the effort is worthwhile?

SAP S/4HANA (and SAP Leonardo) will play a central role in answering all of these questions. This new generation of software gives companies the opportunity to comprehensively digitalize their value chains. What makes the system special is that it allows companies not only to redefine their processes, but also to design entirely new processes.

Many companies are still unaware of the possibilities for digital transformation offered by SAP S/4HANA. This is not especially surprising in the early phase of the product cycle for this entirely new generation of software.

If they wish to successfully realize their digitalization plans, companies must explore this new terrain step by step in order to enjoy the benefits it brings. The support of an experienced SAP service provider like itelligence is essential.

Key areas of action include the modernization and consolidation of the SAP application landscape, increased efficiency, improved application performance and ease of use, and the ability to respond more quickly and flexibly to changes in business requirements. Specialist departments are also making new demands, particularly when it comes to designing new digital business processes.

This is closely linked to the main new technologies like the cloud, the Internet of Things, big data and analytics in terms of making future-oriented business models a reality. IT, and hence SAP S/4HANA and the IoT platform SAP Leonardo, are becoming the driving force behind this development alongside the specialist departments. After all, digital transformation can only be achieved with the involvement of the departments.

In recent years, the International Sales & Operations (IS&O) organizational unit has systematically focused on developing the following expertise and performance features within itelligence AG:

— an orientation towards various focus industries accompanied by corresponding process expertise and specific enhancements and concepts for customization in S/4HANA
— the development of the necessary S/4HANA and SAP Leonardo expertise, especially with a view to the progressive testing of the possibilities offered by both products and customers
— support for customers in designing and planning their transformation projects
— tools and methods as the basis for smooth and efficient implementation and migration

Competition between SAP partners will increasingly intensify over the coming years, as the market for S/4HANA services is unanimously seen as offering the greatest growth potential between now and 2025.

According to SAP's quarterly report for Q4/2017, around 3% of all SAP ERP customers worldwide are currently live with S/4HANA, with a further 6% currently in the implementation phase. This means providers find themselves in a race to attract the necessary market share and obtain the necessary expertise.

Thanks to the close cooperation and integration of the IS&O unit into the corresponding SAP SE programs and the early establishment of global training and support structures, itelligence has already trained more than 900 SAP consultants in S/4HANA. At the end of 2017, itelligence also had 47 successful live customers and 151 current implementation projects with S/4HANA, figures that are above-average compared with its international peer group.

EMPLOYEES

"This is our company, a company where we can learn and grow" is the guideline for human resources at itelligence.

Employees by function, by segment
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The Group had 6,983 employees as of December 31, 2017 (December 31, 2016: 5,677), of whom 2,795 were employed in Germany (December 31, 2016: 2,653) and 4,188 outside Germany (December 31, 2016: 3,024). This meant that the number of employees increased by 23.0% compared with the previous year, with 9% attributable to organic growth.

Organic growth in particular benefited from tailored support from the recruitment team, as well as coordinated cross-media personnel marketing measures. All in all, more than 46,500 applications were received and evaluated around the world. In order to ensure that appointments meet the needs of an extremely competitive market with ever more stringent demands and specializations, itelligence is also increasingly addressing experts directly.

Employee development
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The talent management team took 2017 as an opportunity for radical change that will help itelligence on its way to bigger dimensions. Offering targeted HR development on a company-wide basis in an environment of continuous growth represents a considerable challenge. The existing competency model was revised. Job groups are gradually being identified and appropriate competency levels are being defined for each job group in order to allow each individual area to perform HR planning, make appointments and promotions and conduct training measures on the basis of the competency model while also retaining a degree of autonomy.

The training offering has been reorganized. Curricula are now being developed for each job group in order to ensure that long-term employee training and development do not require extensive research and planning. Consulting and all the team leaders are already using the newly developed training courses forming part of the curricula. The talent management team has also introduced new benefits and health care measures.

itelligence encourages the global networking of employees within the company and the NTT DATA Group by offering a range of high-potential development programs and communities. In 2017, a total of 26 colleagues were included in itelligence's DELTa (Develop Expert and Leadership Talents) program. Our third management level improved its networking even further at the CyNergy Workshops in April 2017, which included discussions and reflections on the key aspects of the company's strategy together with the Management Board. Three itelligence representatives were selected to represent the company in the NTT DATA Global Leadership Program.

All these activities are aimed at making itelligence AG an attractive employer for all employees. "Create an attractive home for talents at itelligence worldwide."

ECONOMIC REPORT

GENERAL ECONOMIC SITUATION IN 2017

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 76 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 more than 6,000 customers.

According to calculations by the International Monetary Fund (IMF), global gross domestic product (GDP) enjoyed robust growth of 3.7% in 2017 after 3.2% in the previous year. All in all, the world economy is on a solid upward trend in line with the normal economic cycle. The tax reform in the USA has contributed to the recent further improvement in the economic environment. According to the IMF, the reform is expected to have a cumulative positive growth effect of 1.2% to 2020. Risks to the global economy include the fundamentally high valuation of assets such as equities and real estate, which are making a correction more likely. A market correction could adversely affect growth and consumer confidence. One potential trigger for a correction, and hence a deterioration in economic potential, could be an interest rate rise in response to increased inflation. Other imponderables in terms of future economic development include domestically oriented policies, geopolitical tension and political uncertainty, such as the situation in Germany following the parliamentary elections in fall 2017.

Following GDP growth of 1.8% in 2016, the euro zone generated above-average growth of 2.4% in the past year. This development was driven by the European Central Bank's sustained policy of low interest rates and the high level of international demand for exports. Growth in Germany amounted to 2.5%, representing a major increase compared with the previous year (1.9%). In France, growth accelerated from 1.2% in 2016 to 1.8% in 2017. Although the growth rate in Spain slowed from 3.3% in 2016 to 3.1% in the past year, this remains substantially in excess of the euro zone growth rate. Following weakness in recent years, Italy also saw an upturn in GDP growth from 0.9% in 2016 to 1.6% in 2017. The pronounced increase in the external value of the euro has had a negative impact of late, although this is yet to be reflected in the export statistics. Despite some improvement, unemployment in the euro zone remains high. The high level of government debt in countries like France and Italy is continuing to limit the available fiscal scope. A lack of clarity concerning the modalities of Brexit was a further source of uncertainty in the past year. itelligence generated 50.1% (previous year: 47.9%) of its consolidated revenues in the euro zone states.

At 1.7% in 2017 (previous year: 1.9%), the UK recorded weaker GDP growth than the euro zone. This is generally seen as a reflection of the uncertainty concerning the country's withdrawal from the European Union (Brexit). The pound sterling lost considerable ground against the euro over the course of the year, leading to higher consumer prices. Increased inflation and the uncertainty surrounding Brexit had an adverse effect on companies' propensity to invest in 2017. itelligence generated 8.3% (previous year: 9.1%) of its consolidated revenues in the UK.

The USA recorded growth of 2.3% in President Trump's first year in office, representing a major increase compared with the previous year (1.5%). Even after many years of expansive fiscal policy, interest rates remained low and government spending remained high. Despite the uncertainty surrounding government policy, consumer and business confidence is at a high level and has recently been boosted by the substantial tax reform. The labor market is showing full employment and asset prices are reaching new highs. The recent weakness of the US dollar has boosted exports, but also brings with it the risk of rising inflation. itelligence generated 14.9% (previous year: 17.5%) of its consolidated revenues in the USA and Canada.

Turkey is enjoying a surprisingly pronounced economic boom, recording growth of 5.1% in 2017 after 3.2% in the previous year. This upturn is being driven by increased exports following several quarters of adverse development. One key factor has been the weakening of the Turkish lira against other currencies. The country's fiscal policy also remains clearly geared towards expansion. The flipside of this policy is an inflation rate of 11% in 2017, with corresponding consequences for local purchasing power. itelligence generated 4.5% (previous year: 5.2%) of its consolidated revenues in Turkey.

Following a slump in 2015, the recession in Russia continued in the previous year with a growth rate of -0.2%. However, Russia returned to a growth path in 2017 with a solid upturn in GDP of 1.8%. The overall economic outlook has improved, not least thanks to rising oil prices. However, the continued imposition of sanctions following the annexation of Crimea means the macroeconomic situation remains fragile. itelligence generated 1.6% (previous year: 1.4%) of its consolidated revenues in Russia in the year under review.

With GDP growth of 6.8% in 2017, China maintained the level recorded in the previous year (6.7%). The world's second-largest economy is a fundamentally important trading partner. The strong growth recorded in the past year was driven in particular by high domestic demand on the back of moderate inflation. Risks relate to the sustained expansion in the credit volume and the high valuations of real estate and securities. China accounted for 0.7% (previous year: 0.6%) of itelligence AG's revenues.

In the Asian emerging economies excluding China, economic growth amounted to 5.3% (previous year: 4.9%). itelligence generated direct revenues from managed services in Malaysia that accounted for 1.0% of total revenues (previous year: 1.1%).

itelligence did not generate any direct revenues in Japan. However, its membership of the NTT/NTT DATA Group means the economic development of the world's third-largest economy is extremely relevant for the company. Customer relationships remain in place with Japanese groups, both directly and via affiliates. In line with the global trend, GDP growth in Japan also improved considerably to 1.8% in the year under review as against 0.9% in 2016. This was driven by the weakening of the yen, which boosted exports, whereas domestic demand remained at a comparatively low level.

SECTOR DEVELOPMENT IN 2017

The global IT software and service market continued to enjoy significant growth in the year under review. According to the analysts from Gartner, enterprise software and IT services, which are the relevant segments for itelligence, grew by 8.9% and 4.3% respectively in 2017. After adjustment for currency translation effects, Gartner has forecast average growth rates of 8.5% for software and 4.8% for services for the period from 2016 to 2021. Taking into account inorganic growth of 5.1%, itelligence's growth again significantly outstripped that of the market, with consolidated revenues rising by 12.1% overall.

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, 2017	Jan. 1 – Dec. 31, 2016	Oct. 1 – Dec. 31, 2017	Oct. 1 – Dec. 31, 2016
Total revenues	**872.2**	**777.9**	**240.0**	**224.7**
Revenue division				
Consulting	358.2	331.4	95.4	91.6
Licenses	87.9	79.0	34.3	35.2
Cloud Subscription	14.1	6.5	4.3	2.1
Managed Services	408.5	360.2	105.1	98.4
Other	3.5	0.8	0.9	-2.6
Revenue segment				
Germany/Austria/Switzerland (DACH)	417.9	364.6	112.1	109.7
Western Europe	200.1	177.6	58.6	53.5
Eastern Europe	87.8	83.3	25.1	23.0
America	145.2	135.7	37.8	34.2
Asia	14.3	12.5	3.7	3.3
Other	6.9	4.2	2.7	1.0
EBIT	33.8	34.9	13.7	17.4
EBIT margin	3.9%	4.5%	5.7%	7.7%
EBITA	44.1	42.2	15.3	19.6
EBITA margin	5.1%	5.4%	6.4%	8.7%
EBITDA	67.4	64.0	22.3	25.0
EBITDA margin	7.7%	8.2%	9.3%	11.1%
IFRS net profit	18.8	18.2	9.1	10.2
IFRS earnings per share in EUR	0.56	0.56	0.29	0.33

REVENUE DEVELOPMENT

Revenue development
2007 – 2017 in MEUR
Page 76

In fiscal year 2017, itelligence continued the revenue trend recorded in previous years and increased its market share. Revenues increased by 12.1% (after adjustment for currency translation effects: +14.3%), from MEUR 777.9 to MEUR 872.2, thereby exceeding the forecast of MEUR 820. Average revenue growth (CAGR) for the past ten years amounts to 16.4%.

Revenues by quarter
in MEUR
Page 77

Revenue development
by regional segment,
by division
Page 76

Recurring business as
a proportion of total
revenues
Page 77

Revenues were up year-on-year in all quarters in 2017. At +8.8% (of which exchange rate effects: 1.8%), organic growth was higher than in the previous year. The companies acquired in 2017 contributed a further +5.1% to the increase in revenues. This effect was attributable to the acquisition of ITML and BIT.Group in Germany in fiscal year 2016 and the acquisition of Goldfish and vCentric in fiscal year 2017.

itelligence breaks down revenues both by segment and by division.

47.9% of revenues were attributable to the DACH segment (previous year: 46.9%), 22.9% to Western Europe (previous year: 22.8%), 10.1% to Eastern Europe (previous year: 10.7%), 16.7% to America (previous year: 17.4%), 1.6% to Asia (previous year: 1.6%), and 0.8% to the Other segment (previous year: 0.6%).

The breakdown of revenues by individual unit is as follows: Consulting 41.1% (previous year: 42.6%), Licenses 10.1% (previous year: 10.2%), Cloud Subscription 1.6% (previous year: 0.8%), Managed Services 46.8% (previous year: 46.3%), and Other 0.4% (previous year: 0.1%).

REVENUE DEVELOPMENT IN THE REGIONS

The itelligence AG segment with the highest revenues, Germany/Austria/Switzerland (DACH), increased its revenues by 14.6% to MEUR 417.9 (after adjustment for currency translation effects: +15.9%), partly as a result of the acquisitions of ITML and BIT.Group in 2016. Organic growth in the region amounted to 6.8% in the period under review. Acquisition-based growth totaled 7.8% and was largely influenced by the first-time full-year consolidation of these acquisitions.

The highest increase in revenue in the DACH segment was achieved in the Managed Services unit, which grew by MEUR 33.6 (17.9%) from MEUR 187.9 to MEUR 221.5. 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 5.3% to MEUR 37.8. Cloud Subscription revenues rose by 52.4%, from MEUR 2.1 to MEUR 3.2. Consulting revenues increased by 8.1% (after adjustment for currency translation effects: 11.0%), from MEUR 141.9 to MEUR 153.4.

Revenues in the Western Europe segment rose by 12.7% (after adjustment for currency translation effects: +14.5%) to MEUR 200.1. In addition to inorganic revenue growth from the acquisition of Goldfish B.V. in the amount of MEUR 10.5, this was due in particular to the positive business development in Denmark/Norway/Sweden (Nordics region), where revenues increased by 16.8% to MEUR 93.4. Revenues in the United Kingdom improved by MEUR 2.2, from MEUR 72.4 to MEUR 74.6.

Consulting revenues in Western Europe enjoyed significantly positive development in 2017, increasing from MEUR 96.1 to MEUR 105.5. This represents growth of MEUR 9.4 or 9.8% (after adjustment for currency translation effects: 9.9%). The Nordics region saw a particularly strong increase in consulting revenues of MEUR 10.7, while the other national subsidiaries such as Benelux and France also enjoyed positive development. Only the United Kingdom saw lower consulting revenues than in the previous year.

Licenses revenues remained essentially unchanged year-on-year at MEUR 22.1 (previous year: MEUR 22.5). Licenses revenues increased by 2.3 after adjustment for currency translation effects. Meanwhile, cloud subscription increased by 96%, from MEUR 2.4 to MEUR 4.9, as a result of the strong performances of the UK and Nordics regions. Managed services also achieved an 19.5% rise from MEUR 56.5 to MEUR 67.5. This was mainly attributable to the Nordics region.

The Eastern Europe segment generated revenues of MEUR 87.8 in the past fiscal year. This represented an increase of MEUR 4.5 or +5.4% on the previous year. After adjustment for currency translation effects, revenue growth in the segment amounted to 14.0%. Russia in particular expanded its market share compared with the previous year and increased its revenues by MEUR 3.4, from MEUR 11.2 to MEUR 14.6. The Polish company continued its positive business development, recording growth of MEUR 2.9 compared with the prior-year figure of MEUR 16.5. At MEUR 39.2, the Turkish company was down MEUR 4.5 on the prior-year figure of MEUR 43.7. This was due among other things to the depreciation of the Turkish lira. Adjusted for currency translation effects, Turkey would have recorded growth of 10.9%.

All the segments enjoyed substantially positive development with the exception of license business. At MEUR 32.2, consulting revenues increased by MEUR 2.1 or 7.0% compared with the prior-year figure of MEUR 30.1 (after adjustment for currency translation effects: +19.3%). Managed services increased by MEUR 4.1 or 10.5% year-on-year, from MEUR 39 to MEUR 43.1. At MEUR 10.5, license revenues were down MEUR 2.6 on the prior-year figure of MEUR 13.1. Adjusted for currency translation effects, the year-on-year decrease was MEUR 1.1.

Performance in the America segment was also positive compared with the previous year. Revenues increased by 7.0%, from MEUR 135.7 in the previous year to MEUR 145.2. After adjustment for currency translation effects, revenue growth amounted to 8.7%. This was due to the expansion of business with new and existing customers, as well as inorganic revenue growth of MEUR 3.1 thanks to the acquisition of vCentric.

Managed services remained essentially unchanged year-on-year at MEUR 66.3 (previous year: MEUR 66.6). Adjusted for currency translation effects, revenue in this area would have increased by 1.2%. License revenues rose by MEUR 6.3, from MEUR 10.1 to MEUR 16.4 (after adjustment for currency translation effects: +65%). At MEUR 57.8, consulting revenues were lower than expected and down on the prior-year figure of MEUR 58.1 (after adjustment for currency translation effects: +1.0%).

Revenues in the Asia segment amounted to MEUR 14.3. This represented an increase of 14.4% (after adjustment for currency translation effects: 21.2%) on the prior-year figure of MEUR 12.5.

At MEUR 5.0, revenues from consulting business were up MEUR 1.8 on the prior-year figure of MEUR 3.2. License business in Asia remained unchanged year-on-year at MEUR 0.3. Managed services business in Asia repeated the prior-year revenue level of MEUR 9.0. After adjustment for currency translation effects, revenues would have grown by 5.9%.

The Other segment contains the revenues of ITC GmbH and Recruit GmbH. The revenues generated by these two companies increased by MEUR 2.8, from MEUR 4.2 in the previous year to MEUR 7.0 in the year under review; this was due to the extremely good business performance of ITC GmbH.

REVENUE DEVELOPMENT BY DIVISION

itelligence AG generated year-on-year revenue growth in almost all divisions in fiscal year 2017.

For instance, Consulting revenues increased by 8.1% year-on-year (after adjustment for currency translation effects: +10.3%) from MEUR 331.4 to MEUR 358.2. This was due to higher consultant capacity utilization in Germany and abroad.

License revenues rose by MEUR 8.9 in fiscal year 2017, from MEUR 79.0 to MEUR 87.9.

Orders on hand and revenues per quarter
Page 77

The biggest percentage increase (+116.9%) was generated in the cloud subscription segment, where revenues rose by MEUR 7.6, from MEUR 6.5 in the previous year to MEUR 14.1 in the year under review. This was primarily attributable to the first-time full-year consolidation of ITML and BIT.Group.

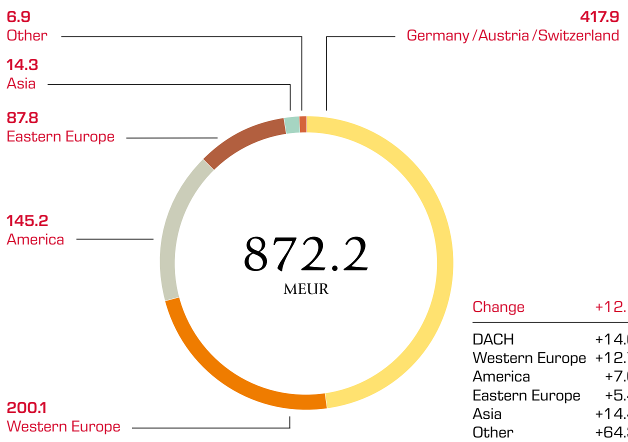
Revenues from managed services increased considerably by MEUR 48.3, from MEUR 360.2 to MEUR 408.5. This was due to volume-related growth and, as in the cloud subscription segment, the first-time full-year consolidation of ITML and BIT.Group. Good business development at GISA GmbH also had a positive effect on this segment.

Orders on hand at itelligence AG increased by 20.2% from MEUR 771.7 to MEUR 927.8. The book-to-bill ratio for 2017 amounted to 1.18.

REVENUE DEVELOPMENT BY SEGMENT

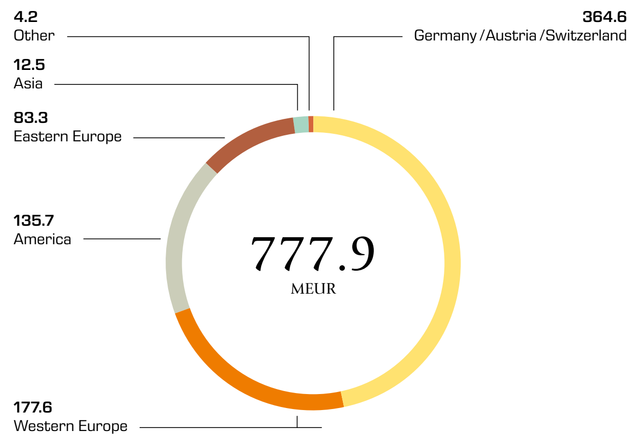
MEUR

2017



Change	+12.1%
DACH	+14.6%
Western Europe	+12.7%
America	+7.0%
Eastern Europe	+5.4%
Asia	+14.4%
Other	+64.3%

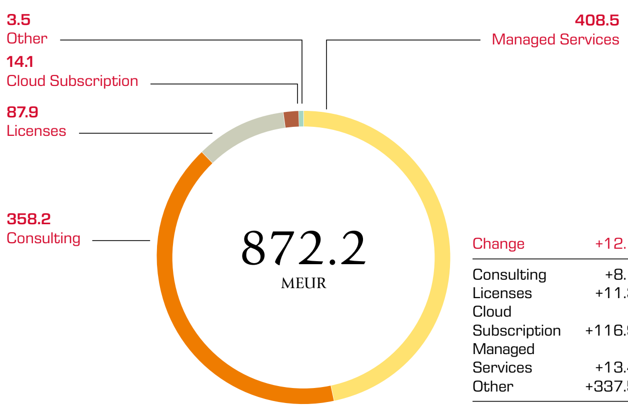
2016



REVENUE DEVELOPMENT BY DIVISION

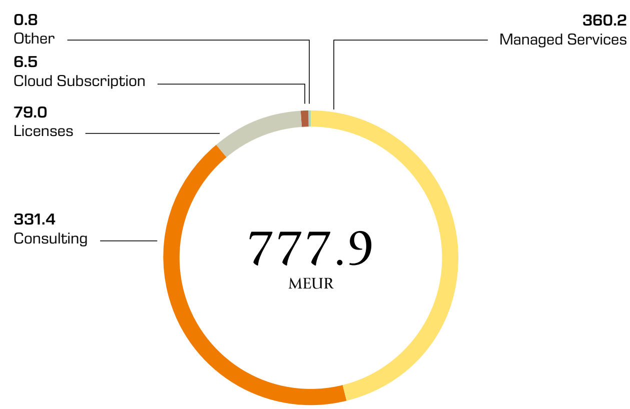
MEUR

2017



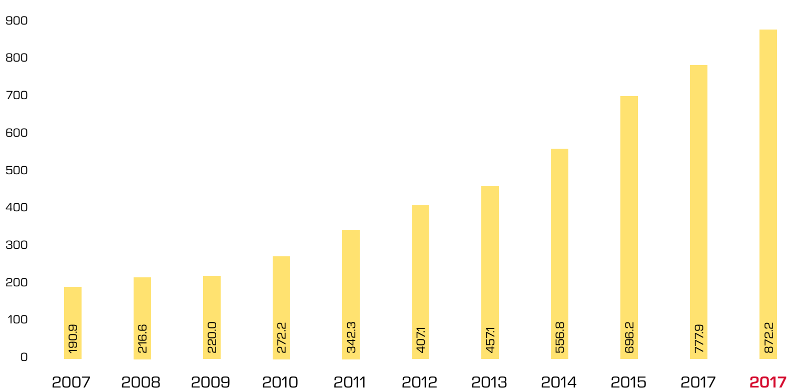
Change	+12.1%
Consulting	+8.1%
Licenses	+11.3%
Cloud Subscription	+116.9%
Managed Services	+13.4%
Other	+337.5%

2016



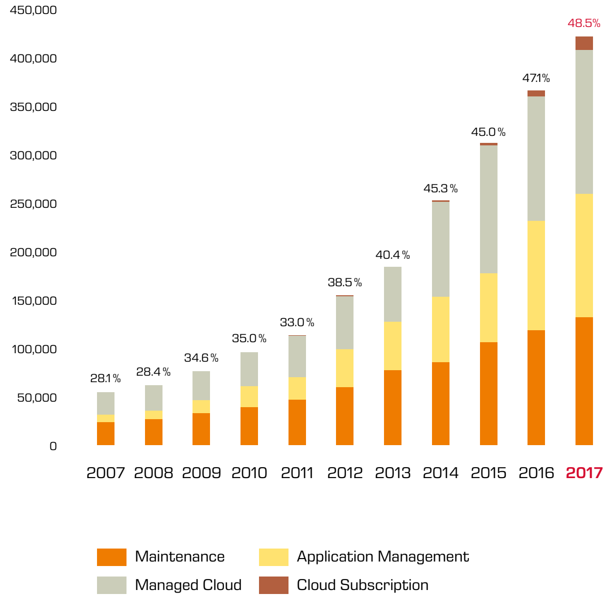
REVENUE DEVELOPMENT 2007–2017

MEUR

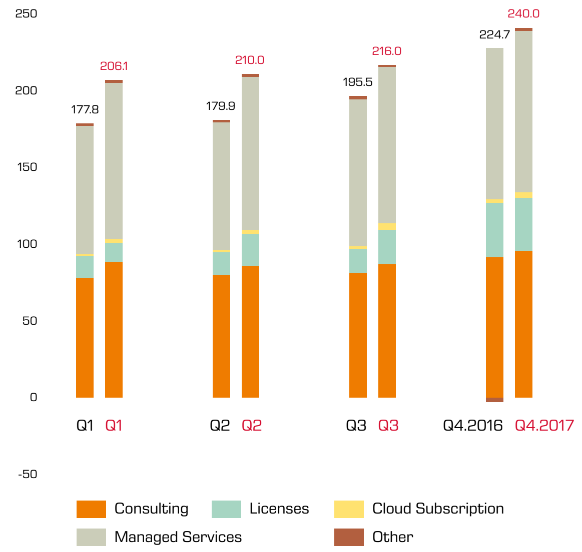


CAGR 2007–2017
16.4%

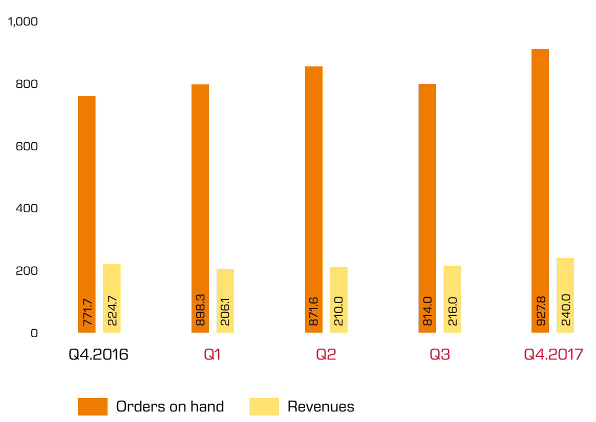
RECURRING BUSINESS
as a proportion of total revenues in MEUR



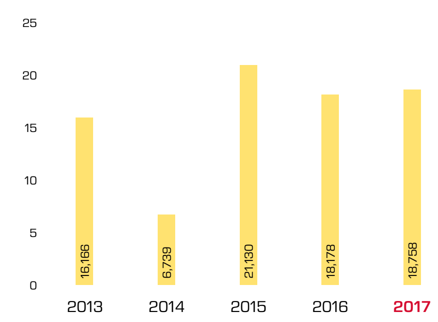
REVENUES BY QUARTER
MEUR



ORDERS ON HAND & REVENUES
per quarter in MEUR

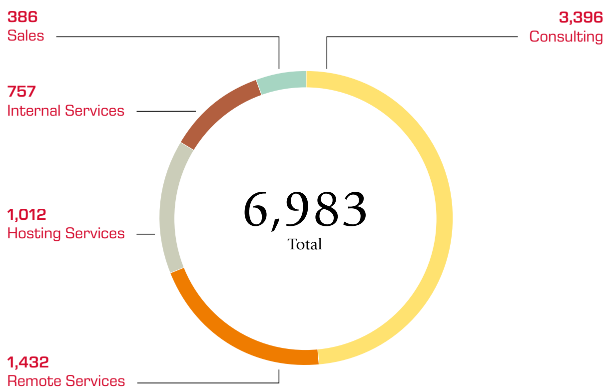


CONSOLIDATED NET PROFIT
KEUR

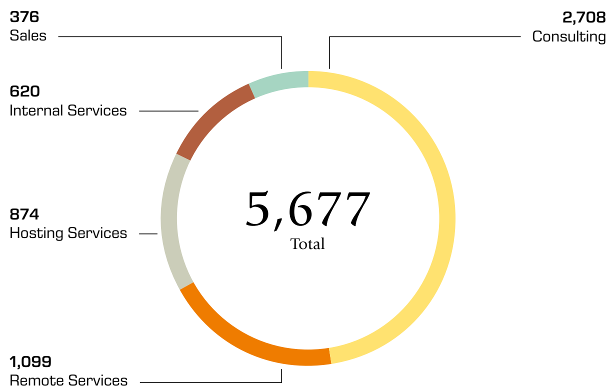


EMPLOYEES BY FUNCTION

2017

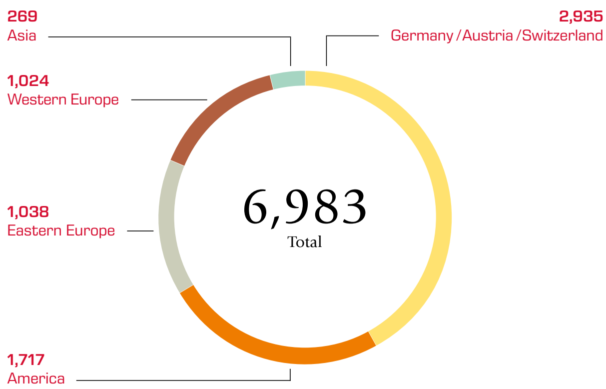


2016

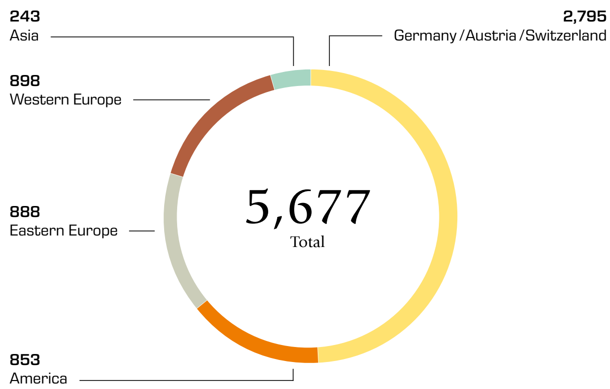


EMPLOYEES BY SEGMENT

2017

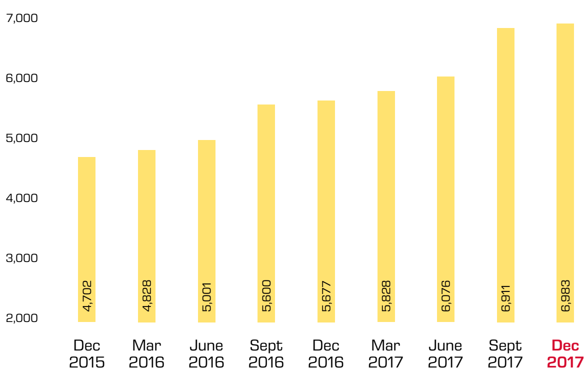


2016



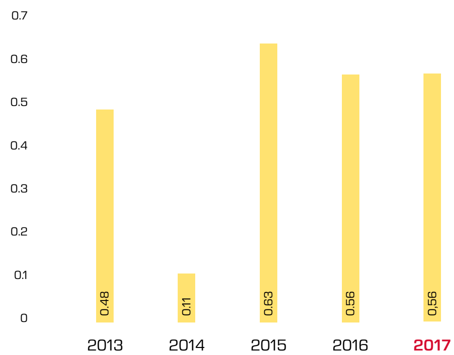
EMPLOYEE DEVELOPMENT

at the end of the month



EARNINGS PER SHARE

EUR



NET ASSETS, FINANCIAL POSITION, AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

itelligence AG recorded a year-on-year improvement in interest before interest, taxes and amortization (EBITA) in fiscal year 2017. EBITA rose by 4.5%, from MEUR 42.2 in 2016 to MEUR 44.1, corresponding to an operating EBITA margin of 5.1% (previous year: 5.4%). At 3.9%, the EBIT margin was 0.6 percentage points lower than in the previous year and down on the prior-year forecast of 5.0%. The difference of 1.2 percentage points compared with the EBITA margin is due to the scheduled amortization of intangible assets in the amount of MEUR 10.3 (previous year: MEUR 7.3). Capitalized customer relationships and orders on hand are amortized over periods that reflect the respective contractual terms.

The reasons for the downturn in profitability include reorganization costs in Eastern Europe, write-downs on loss-making projects and higher start-up costs for new projects in Germany and abroad. Increased expenditure also resulted from internal consulting projects.

At MEUR 21.1, the highest absolute EBITA contribution was generated in Germany, Austria and Switzerland (DACH segment; previous year: MEUR 16.9). In particular, the segment’s earnings strength was boosted by the business model of the BIT.Group with its pronounced focus on managed cloud and maintenance business. Earnings also benefited from the positive performance of GISA GmbH, the subsidiary in Switzerland and the permanent establishment in Austria. Consulting business in Germany failed to fully meet expectations in the period under review, but this was offset by the positive development of application management business as well as increased license revenues.

EBITA in the Western Europe segment amounted to MEUR 13.6 in 2017, representing an increase of MEUR 1.0 compared to the prior-year figure of MEUR 12.6. In addition to the positive earnings effects from the acquisition of Goldfish B.V. in the Netherlands, this development was driven by the continued positive business performance in the Nordics region and in France. This was sufficient to offset the slight downturn in earnings in the United Kingdom.

The Eastern Europe segment generated EBITA of MEUR 1.6, down MEUR 1.2 on the figure of MEUR 2.8 recorded in 2016. Lower profitability in Turkey and Poland and a negative earnings contribution from the Czech Republic were only offset to a limited extent by the operating companies in the other countries.

EBITA in the America segment declined by around MEUR 2.0 year-on-year to MEUR 5.3. The continuous savings program in America and the expansion of offshore activities in India through the acquisition of vCentric were not enough to offset the negative development of consulting and maintenance business in the region.

At MEUR 1.1, the earnings contribution generated in the Asia segment was around MEUR 0.4 lower than in the previous year. This development was due to the shortfall in managed cloud revenues, whereas consulting business in China continued to increase its earnings contribution.

At MEUR 1.2, the EBITA 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 0.6 (previous year: MEUR 0.5).

NET FINANCE COSTS

Net finance costs amounted to MEUR -7.3 compared with MEUR -5.8 in the previous year. This figure includes finance income from short-term investments in the amount of MEUR 0.2 (previous year: MEUR 0.1) and finance costs of MEUR 4.0 (previous year: MEUR 2.3). Net finance costs also include expenses from the remeasurement of derivatives and the exercise of options in the amount of MEUR 3.5 (previous year: expenses of MEUR 3.7). This results in EBT (earnings before taxes) of MEUR 26.4 after MEUR 29.1 in the previous year.

TAX EXPENSE

Tax expense in fiscal year 2017 amounted to MEUR 7.7 compared with MEUR 10.9 in the previous year. At 29.1%, the consolidated tax rate was down significantly on the prior-year figure of 37.6%. This was primarily due to the dramatic reduction in corporate taxes in the USA. 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

Consolidated net profit
Page 77

itelligence AG's consolidated net profit for the fiscal year under review increased to MEUR 18.8, up MEUR 0.6 on the prior-year figure of MEUR 18.2.

Earnings per share
Page 78

At EUR 0.56, earnings per share remained unchanged as against the previous year. Earnings per share were calculated on the basis of 30,014,838 shares.

NET ASSETS

Reflecting the Group's continued significant growth, total assets grew by MEUR 33.3 or around 6.1% in the past fiscal year.

ASSETS MEUR	Dec. 31, 2017	Dec. 31, 2016	Change
Intangible assets	175.2	165.2	10.0
Property, plant and equipment	105.4	97.1	8.3
Non-current receivables and other assets	4.3	8.4	-4.1
Non-current assets	**284.9**	**270.7**	**14.2**
Current receivables and other assets	243.8	216.3	27.5
Cash and cash equivalents	49.3	57.7	-8.4
Current assets	**293.1**	**274.0**	**19.1**
Total assets	**578.0**	**544.7**	**33.3**

EQUITY AND LIABILITIES MEUR	Dec. 31, 2017	Dec. 31, 2016	Change
Equity (including non-controlling interests)	**174.5**	**165.8**	**8.7**
Financial liabilities	163.3	103.5	59.8
Provisions for pensions and other provisions	9.8	9.8	0.0
Other non-current liabilities	15.8	18.0	-2.2
Non-current liabilities	**188.9**	**131.3**	**57.6**
Trade payables	71.3	62.8	8.5
Financial liabilities	26.6	67.2	-40.6
Other current liabilities and provisions	116.7	117.6	-0.9
Current liabilities	**214.6**	**247.6**	**-33.0**
Total equity and liabilities	**578.0**	**544.7**	**33.3**

At MEUR 284.9, non-current assets were up by 5.2% on the previous year's figure of MEUR 270.7. Non-current assets accounted for 49.3% of total assets at the reporting date (previous year: 49.7%). The main items under non-current assets are goodwill in the amount of MEUR 140.2 (previous year: MEUR 142.8) and property, plant and equipment in the amount of MEUR 105.4 (previous year: MEUR 97.1). The MEUR 2.6 reduction in goodwill is primarily due to reclassifications of orders on hand and customer relationships in the amount of MEUR 14.0 and exchange rate differences of MEUR 5.1. The acquisition of the 100% interest in Goldfish Group, Utrecht, Netherlands, and the 100% interest in vCentric Technologies pvt. Ltd., Hyderabad, India, resulted in an increase in goodwill of MEUR 16.5.

Current assets amounted to MEUR 293.1 at the end of the year under review compared with MEUR 274.0 in the previous year, thus accounting for 50.7% of total assets (previous year: 50.3%). Trade receivables showed the sharpest rise in this area. They increased by 15.1% year-on-year from MEUR 185.4 to MEUR 213.4 as a result of the acquisitions as well as the strong course of business in the last quarter of 2017. The average days sales outstanding – defined as the average number of days from invoicing to receipt of payment from the customer – rose by 2 days to 82 days at the reporting date (previous year: 80 days). Cash and cash equivalents declined to MEUR 49.3 compared with MEUR 57.7 in the previous year.

On the liabilities side of the consolidated statement of financial position, equity increased by MEUR 8.7 to MEUR 174.5 largely as a result of the consolidated net profit for the year. Despite the rise in equity in absolute terms, the equity ratio, which expresses the ratio of equity to total assets, decreased from 30.4% in the previous year to 30.2% due to the more pronounced increase in total assets.

Non-current liabilities accounted for 32.7% of the Group's total equity and liabilities at December 31, 2017, up on the prior-year figure of 24.1%. 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 a reduction in current liabilities of MEUR 33.0 to MEUR 214.6. This was primarily due to the lower level of financial liabilities and other non-financial liabilities accompanied by an increase in trade payables at the end of the year. The reduction in financial liabilities was mainly attributable to the loan newly concluded with NTT DATA EUROPE GmbH & Co. KG in the amount of MEUR 119.9 and the simultaneous repayment of the loan to NTT DATA CORPORATION. This loan is used to finance acquisitions in Germany and abroad as well as to finance capital expenditure. Further information on the loans can be found in note (23) of the notes to the consolidated financial statements.

The reduction in other non-financial liabilities is primarily due to the lower level of other provisions. This mainly resulted from the utilization of the provision for possible repayments of EU subsidies in the amount of MEUR 2.6 in fiscal year 2017. At 37.1%, the ratio of current liabilities to total assets was down on the previous year's figure of 45.5%.

FINANCIAL POSITION

CASHFLOW MEUR	Dec. 31, 2017	Dec. 31, 2016	Change
EBITDA	67.4	64.0	3.4
Cashflows from operating activities	38.8	40.4	-1.6
Cashflows from investing activities	-43.1	-75.6	32.5
Cashflows from financing activities	-2.4	38.6	-41.0
Change in liquidity	-6.7	3.4	-10.1

In the past fiscal year, net cash from operating activities decreased by MEUR 1.6 to MEUR 38.8. This was primarily attributable to the increase in trade receivables in the year under review.

Net cash used in investing activities amounted to MEUR 43.1, down significantly on the previous year's figure of MEUR 75.6. 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 11.2 (previous year: MEUR 40.6). Investments in intangible assets and property, plant and equipment (less investment subsidies and grants) amounted to MEUR 31.3 in the year under review, compared with MEUR 35.4 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, America accounted for investments including finance leases of MEUR 5.7 (previous year: MEUR 3.6), DACH for MEUR 34.5 (previous year: MEUR 31.9), Western Europe for MEUR 15.0 (previous year: MEUR 4.1), and Eastern Europe for MEUR 4.3 (previous year: MEUR 4.3).

Net cash used in financing activities totaled MEUR -2.4 (previous year: MEUR 38.6). The Group entered into financial liabilities of MEUR 147.4 in fiscal year 2017. This was offset by repayments in the amount of MEUR 137.7 (MEUR 130.8 of which related to the Group parent) and finance lease payments of MEUR 10.6. 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 1.76%. Due to the fixed interest agreements for the existing financing, a change in interest rates would not have a significant impact on the itelligence 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 declined by MEUR 8.4 to MEUR 49.3 as of the reporting date (previous year: MEUR 57.7). Of this figure, MEUR 17.5 was held in the euro zone and was not subject to exchange rate effects. Cash and cash equivalents held outside the euro zone in the amount of MEUR 31.8 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 itelligence's net interest income.

In order to increase financial flexibility, additional credit facilities of MEUR 18.0 were agreed in Germany. In the year under review, these were utilized for drawing against guarantees and loans in the amount of MEUR 0.5. In addition to credit facilities in Germany, subsidiaries also applied for credit facilities abroad. These credit facilities with a total volume of MEUR 18.0 were agreed in the respective local currencies and were partially guaranteed by itelligence AG. At the reporting date, these credit facilities were utilized by subsidiaries in the amount of MEUR 5.5.

The itelligence Management Board expects the cash and cash equivalents of MEUR 49.3 together with financial reserves in the form of various unutilized credit facilities to be sufficient to cover itelligence'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 AG again exceeded its growth targets by some distance in the past fiscal year. The acquisitions of Goldfish B.V. in the Netherlands and vCentric in India have improved itelligence's position in key markets and increased its expertise and delivery capacities.

The equity ratio declined slightly to 30.2% in the year under review after 30.4% in 2016. Cash and cash equivalents fell from MEUR 57.7 in 2016 to MEUR 49.3 in 2017. Financial flexibility is sufficiently ensured by adequate credit facilities in Germany and abroad. The parent company NTT DATA means that loans, financing and capital increases for major investment and acquisition projects can be provided at all times. 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 used by itelligence AG are revenues and the operating indicators EBIT and EBITA. EBIT is defined as operating earnings before interest and taxes, while EBITA is defined as operating earnings before interest, taxes and amortization. These performance indicators are presented to and discussed with the Management Board on a monthly basis as part of internal reporting, thereby allowing measures to be initiated in a timely manner as required.

In addition to the abovementioned 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 cashflows 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.

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.

REMUNERATION REPORT

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

NORBERT ROTTER CEO since July 1, 2016 / CFO until June 30, 2016	2017	2016
KEUR		
Non-performance-related (fixed) remuneration	375	312
Performance-related (variable) current remuneration (current year)	138	134
Performance-related (variable) non-current remuneration (current year)	288	200
Total remuneration for the year	**801**	**646**

HERBERT VOGEL CEO until June 30, 2016	2017	2016
KEUR		
Non-performance-related (fixed) remuneration	0	250
Performance-related (variable) current remuneration (current year)	0	99
Performance-related (variable) non-current remuneration (current year)	0	273
Total remuneration for the year	**0**	**622**

DR. MICHAEL DORIN CFO since January 1, 2017	2017	2016
KEUR		
Non-performance-related (fixed) remuneration	200	0
Performance-related (variable) current remuneration (current year)	138	0
Performance-related (variable) non-current remuneration (current year)	34	0
Total remuneration for the year	**372**	**0**

The total remuneration paid to the members of the Management Board for fiscal year 2017 was KEUR 1,173 (previous year: KEUR 1,268).

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.

Remuneration components are 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 or alternatively travel and vehicle allowances. In the case of maintaining two households, a rent allowance is granted.

- 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 2017, this is reported on a pro rata basis in the 2017 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 for the current CEO is EUR 4,500, the monthly pension for the current CFO is EUR 4,000, and the monthly pension for the former CEO is EUR 10,000. 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 2017 and 2016. 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 of a maximum of two years annual remuneration has 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 125 for remuneration for the remaining months up to December 31, 2017.

The company has pension obligations to the members of the Management Board in the amount of KEUR 595, for which total expenses of KEUR 131 were incurred in 2017.

The financing status developed as follows:

NORBERT ROTTER	2017	2016
KEUR		
Defined benefit obligation	532	480
Cash surrender value of the employer's pension liability insurance policy	-255	-193
Financing status	**277**	**287**

HERBERT VOGEL	2017	2016
KEUR		
Defined benefit obligation	0	2,629
Cash surrender value of the employer's pension liability insurance policy	0	-1,138
Financing status	**0**	**1,491**

DR. MICHAEL DORIN	2017	2016
KEUR		
Defined benefit obligation	63	0
Cash surrender value of the employer's pension liability insurance policy	-41	0
Financing status	**22**	**0**

The company has pension obligations to former members of executive bodies in the amount of KEUR 3,718 (previous year: KEUR 1,218), for which expenses of KEUR 64 were incurred in 2017 (previous year: KEUR 18).

The financing status developed as follows:

KEUR	2017	2016
Defined benefit obligation	3,718	1,218
Cash surrender value of the employer's pension liability insurance policy	-1,816	-589
Financing status	**1,902**	**629**

Remuneration of the Supervisory Board

KEUR	Fixed remuneration component	Committee remuneration	Attendance fees	2017 Total remuneration
Friedrich Fleischmann (Chairman)	75.0	37.5	10.0	122.5
Prof. Heiner Schumacher	37.5	27.5	10.0	75.0
Jens Christian Derdau Sørensen	25.0	5.0	7.0	37.0
Mersun Sezer	25.0	12.5	10.0	47.5
Tadashi Uhira* (until June 20, 2017)	11.8	2.4	3.0	17.2
Koji Ito*	25.0	10.0	8.0	43.0
Ken Tsuchihashi* (since October 12, 2017)	5.4	1.1	3.0	9.5
	204.7	**96.0**	**51.0**	**351.7**

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**

* 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 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, 2018 whether the target for the second management tier below the Management Board continues to be met.

DEPENDENT COMPANY REPORT

All 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 (3) 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

The internal control system (ICS) of itelligence AG primarily consists of Group-wide controlling and financial reporting and Group-wide risk management.

The harmonization of the internal audit and reporting system in the Group and within the NTT DATA Group continued in 2017. Further controls were integrated at business process level. The functionality of the controls in the business environment and the internal IT systems is examined by management annually.

The risk inventory is updated once a year.

OPPORTUNITY MANAGEMENT

As a long-term partner, itelligence assumes responsibility for the success of IT initiatives and IT challenges of its customers. itelligence provides consulting, software and managed services for its customers in close partnership with SAP. SAP technology leadership, industry solutions, and itelligence's process expertise continue to form the basis for successful cooperation.

itelligence's 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 meta-developments such as Industry 4.0, cloud computing, and mobility also offer huge sustainable growth opportunities for itelligence.

OPPORTUNITIES OF FUTURE BUSINESS DEVELOPMENT

itelligence AG has 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 supplemented 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 requirements is regularly examined and improved by itelligence in cooperation with NTT DATA. Monthly management meetings at which the operating divisions report on business developments, opportunities, and risks of their areas of responsibility are supplemented by 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
As itelligence is focused on SAP as a full-service IT provider for the traditional and upper midsize market, it is largely dependent on the continued market success of SAP's products. This dependence impacts 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 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 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 monitored through the monthly management 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. 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. itelligence also 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. This enables everyone involved to identify risks at an early stage and take appropriate countermeasures.

itelligence, Inc., Ohio (USA), is involved in pending legal proceedings with a customer concerning the rescission of an SAP implementation project and the accompanying services. The claim amounts to around USD 20 million plus legal and court costs. The claim is entirely disputed by itelligence, Inc., which has asserted a counterclaim for around USD 1.6 million for unpaid services rendered. An internal examination by itelligence, Inc., Ohio (USA), found the amount of the claims and the reasons for their assertion to be unjustified; accordingly, no provisions have been recognized.

itelligence AG is involved in potential legal proceedings with a customer that has announced the rescission of an SAP implementation project and the assertion of various claims for damages. The claims have not yet been asserted in court. A seven- to eight-digit claim amount is estimated by the customer. itelligence AG has receivables from the customer of around MEUR 0.8 for unpaid services. An internal examination by itelligence AG found the amount of the claims and the reasons for their assertion to be unjustified; accordingly, no provisions have been recognized.

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 2017, 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. itelligence's certification is rounded off by the Global Partner SAP Hosting certificate. 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 cashflows. 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 notes (30) and (33g) of the notes to the consolidated financial statements.

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 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 2018

The global economy grew by 3.9% in 2017, thereby outperforming the long-term average (2008 to 2016: 3.2%). The International Monetary Fund is forecasting growth of 3.9% in 2018.

— It is anticipating a further economic upturn on a broad base, most recently thanks to the US tax reform, which has provided additional growth impetus in the USA in particular. At the same time, the planned significant expansion in government spending on infrastructure and the military will massively increase the deficit in the USA, with corresponding consequences for price stability and interest rates.

— A shift towards protectionism at a national level, e.g. through the imposition of punitive tariffs on imports, presents risks to further economic growth. In spite of its aggressive rhetoric, however, the USA has yet to take any concrete steps in this direction. This would have global consequences due to the importance of the US economic area.

— In Europe, the growth prospects for 2018 have improved in Germany, Italy and the Netherlands in particular. This upturn is being driven by stronger domestic and foreign demand. The European Central Bank's monetary policy can still be described as extremely growth-oriented, while the moderate inflation trend means there are no signs of a turnaround in this respect. There are uncertainties as a result of Brexit, with the specifics of the United Kingdom's withdrawal from the European Union still to be determined.

— The emerging economies of Asia are expected to see growth at the prior-year level in 2018. This region will continue to be responsible for around half of the world's economic growth. The outlook for China has improved slightly thanks to stronger foreign demand accompanied by expansive fiscal policy. In the European emerging economies of Turkey and Poland, the outlook has also improved on the back of stronger demand from the euro zone and positive financial conditions. The political situation in Turkey has stabilized, although it remains to be seen how the economy will develop under an increasingly autocratic regime. Russia is expected to stabilize thanks to the continued rise in oil prices.

— The International Monetary Fund has identified risks in the medium term in particular. These primarily relate to the extremely high asset valuations (real estate and equities) as a result of the extremely expansive monetary policy since the onset of the financial crisis. A change in the US Federal Reserve's interest rate policy in response to rising inflation could trigger a correction and damage confidence in continued positive economic development. The imposition of the announced protectionist measures, particularly in the USA, would pose another risk to economic development. A "hard" Brexit would also have serious economic consequences, particularly for the euro zone. Geopolitical tensions in the Middle East in particular would lead to increased uncertainty with regard to further economic growth.

In specific figures, the IMF expects growth of 2.3% for Germany in 2018 after 2.5% last year.

The euro zone as a whole is set to grow by 2.2% after 2.4% in 2017. A figure of 1.9% is forecast for France after 1.8% in 2017. In Italy, growth is expected to slow to 1.4% after 1.6% in 2017. After a strong 3.1% in the previous year, growth of 2.4% is forecast for Spain in 2018. Due to the continued lack of clarity concerning the modalities of Brexit, the IMF is forecasting a further slowdown in growth in the United Kingdom from 1.7% in 2017 to 1.5% in 2018.

By contrast, growth in the USA is expected to accelerate to 2.7% after reaching 2.3% in 2017.

China is expected to record growth of 6.6% in the coming year, down only slightly on the figure for 2017 (6.8%). In Japan, GDP growth is expected to slow from 1.8% to 1.2%.

OUTLOOK FOR THE SOFTWARE AND IT SERVICES MARKET

The outlook for the software and IT services market remains positive, as the 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 3.8% in 2017 according to Gartner. At 8.9% and 4.3% 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 2018, Gartner expects the growth of investment in enterprise software and IT services to accelerate further to 9.5% and 5.5% respectively.

EXPECTED BUSINESS DEVELOPMENT OF ITELLIGENCE AG

As in the previous years, itelligence enjoyed stronger growth than the global market for enterprise software and IT services in the year under review. Revenues increased by 12.1% to MEUR 872.2 on the back of both organic and inorganic growth. The share of recurring business rose from 47.1% in the previous year to 48.5%.

Orders on hand increased significantly from MEUR 771.7 in the previous year to MEUR 927.8 at year-end 2017 (+20.2%), meaning that itelligence has given itself a good starting position for 2018. The Management Board expects daily rates in consulting business to remain stable in the next fiscal 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. 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 2018. Revenues of MEUR 920 are expected for 2018. 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, the company is targeting an EBITA margin of around 5.5% and an EBIT margin of around 5.0% for fiscal year 2018. This corresponds to an EBITA forecast of around MEUR 51 and an EBIT forecast of around MEUR 46. The parent company, NTT DATA, Tokyo, has stated that it again does not intend to pay a dividend for fiscal year 2017, 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 21, 2018

itelligence AG

The Management Board

CONSOLIDATED INCOME STATEMENT

IFRS

KEUR	Notes	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016
Revenues	1	872,201	777,910
Cost of sales	2	-681,766	-604,231
Gross profit		**190,435**	**173,679**
Marketing and distribution expenses	3	-81,740	-74,896
Administration expenses	4	-73,705	-64,579
Other operating income	5	3,456	5,171
Other operating expenses	6	-4,688	-4,476
Total operating expenses		-156,677	-138,780
Operating earnings		**33,758**	**34,899**
Investment income	7	1	89
Measurement of derivatives and exercise of options		-3,537	-3,706
Exchange rate differences from financing activities	8	19	-74
Financial income	8	199	144
Finance costs		-3,999	-2,260
Net finance costs		-7,317	-5,807
Earnings before tax	9	**26,441**	**29,092**
Tax expenses		-7,683	-10,914
Consolidated net profit		**18,758**	**18,178**
of which attributable to the shareholders of itelligence AG		16,845	16,868
of which attributable to non-controlling interests		1,913	1,310
	10		
Earnings per share (EUR) (basic)		0.56	0.56
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, 2017	Jan. 1 – Dec. 31, 2016
Consolidated net profit	18,758	18,178
Actuarial losses (previous year: gains) IAS 19 *	510	-859
Currency translation differences **	-9,403	-5,361
Tax effects	-161	270
Other comprehensive income	**-9,054**	**-5,950**
Total comprehensive income	**9,704**	**12,228**
of which attributable to the shareholders of itelligence AG	7,809	10,736
of which attributable to non-controlling interests	1,895	1,492

* Items never transferred to profit or loss

** Items which can be transferred to profit or loss

CONSOLIDATED BALANCE SHEET

IFRS

ASSETS KEUR	Notes	December 31, 2017	31.12.2016
Non-current assets			
Goodwill	11	140,250	142,791
Intangible assets	11	34,979	22,389
Property, plant and equipment	12	105,354	97,094
Other financial assets	13	877	863
Trade receivables	14	1,403	1,410
Deferred tax assets	16	2,015	6,178
		284,878	**270,725**
Current assets			
Inventories		654	775
Trade receivables	14	213,444	185,436
Income tax receivables		5,046	1,866
Other financial assets	13	2,119	4,373
Other non-financial assets	15	2,854	1,824
Cash and cash equivalents	17	49,307	57,733
Prepaid expenses	18	19,678	21,924
		293,102	**273,931**
		577,980	**544,656**

EQUITY AND LIABILITIES KEUR	Notes	**December 31, 2017**	**31.12.2016**
Equity			
Share capital	19	30,015	30,015
Capital reserves	20	52,768	52,768
Net accumulated profit	21	106,675	89,830
Other comprehensive income	22	-24,715	-15,526
		164,743	**157,087**
Non-controlling interests		9,773	8,669
		174,516	**165,756**
Non-current liabilities			
Financial liabilities	23	163,341	103,489
Deferred tax liabilities	16	12,685	15,142
Other non-current provisions	24	899	961
Pension provisions	25	8,866	8,875
Government grants	26	2,389	2,276
Other non-financial liabilities	27	658	551
		188,838	**131,294**
Current liabilities			
Trade payables	28	71,274	62,836
Financial liabilities	23	26,612	67,224
Tax provisions		3,011	4,229
Other current provisions	24	6,081	9,094
Income tax liabilities		2,196	1,834
Other non-financial liabilities	27	91,367	93,219
Deferred income		14,085	9,170
		214,626	**247,606**
		577,980	**544,656**

CONSOLIDATED CASHFLOW STATEMENT

IFRS

KEUR	Jan. 1 – Dec. 31, 2017	Jan. 1 – Dec. 31, 2016
Consolidated net profit	**18,758**	**18,178**
Amortization of intangible assets and depreciation of property, plant and equipment	33,599	29,100
Elimination of losses on asset disposals	-217	-29
Other non-cash expenses and income	6,701	-4,483
Net finance costs	7,317	5,807
Tax expenses	7,683	10,914
	73,841	**59,487**
Change in inventories	121	768
Change in trade receivables	-21,601	-19,353
Change in other non-current assets	9	1,323
Change in other current assets	-467	1,571
Change in prepaid expenses	6,612	-2,708
Change in trade payables	7,260	6,481
Change in provisions for pensions	-9	752
Change in other liabilities and provisions	-11,121	2,943
	54,645	**51,264**
Interest received	199	238
Dividends received	1	89
Interest paid	-3,090	-2,384
Taxes paid	-12,968	-8,763
Cashflows from operating activities	**38,787**	**40,444**
Capital expenditure for intangible assets and property, plant and equipment	-31,339	-35,361
Cash received from the disposal of property, plant and equipment and intangible assets	919	361
Subsequent purchase price payments for acquisitions	-1,430	0
Payments for acquisitions (less cash and cash equivalents acquired)	-11,239	-40,619
Cashflows from investing activities	**-43,089**	**-75,619**
Dividends paid to non-controlling interests	-944	-1,429
Decrease in long-term deposits	-2	147
Payment for put/call options	-511	-8,127
Borrowing of financial liabilities	147,371	63,782
Repayment of financial liabilities	-148,302	-15,812
Cashflows from financing activities	**-2,388**	**38,561**
Increase in cash and cash equivalents	-6,690	3,386
Effects from exchange rate differences	-1,736	-171
Cash and cash equivalents as of January 1	57,733	54,518
Cash and cash equivalents as of December 31	**49,307**	**57,733**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

IFRS

					Other comprehensive income						
KEUR	Number of shares	Share capital	Capital reserves	Net accumulated profit	Foreign exchange differences	Other equity IAS 19	Other equity	Other comprehensive income	Equity attributable to the shareholders of the parent company	Non-controlling interests	Consolidated equity
December 31, 2015	**30,014,838**	**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	**30,014,838**	**30,015**	**52,768**	**89,830**	**-4,105**	**-2,858**	**-8,563**	**-15,526**	**157,087**	**8,669**	**165,756**
Consolidated net profit				**16,845**					**16,845**	**1,913**	**18,758**
Actuarial losses IAS 19						349		349	349		349
Foreign exchange differences					-9,385			-9,385	-9,385	-18	-9,403
Total comprehensive income				**16,845**	**-9,385**	**349**	**0**	**-9,036**	**7,809**	**1,895**	**9,704**
Dividend payments										-944	-944
Acquisition of a subsidiary with non-controlling interests										0	0
Exercise of options (without change of control)							-153	-153	-153	153	0
Shareholder transactions							**-153**	**-153**	**-153**	**-791**	**-944**
December 31, 2017	30,014,838	30,015	52,768	106,675	-13,490	-2,509	-8,716	-24,715	164,743	9,773	174,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR FISCAL YEAR 2017

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, Spain, the United Kingdom, the Czech Republic, Slovakia, the Netherlands, Belgium, Poland, Hungary, Russia, Ukraine, Canada, France, Denmark, Norway, Malaysia, Turkey, India, Sweden, Qatar, Ireland, 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 of December 31, 2017 are prepared and published in euro (EUR) for the fiscal year from January 1 to December 31, 2017. 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 9, 2018. 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 20, 2018.

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, 2017 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 2017 were taken into account.

The following amended standards to be applied in fiscal year 2017 had no significant effect on the presentation in the consolidated financial statements of itelligence AG:

AMENDMENTS TO IAS 7 – DISCLOSURE INITIATIVE

The amendment improves information on the changes in an entity's debt situation. The entity provides disclosures on changes in those financial liabilities whose cashflows are classified in the statement of cashflows as cashflows from financing activities. Corresponding financial assets are also included in the disclosures.

Changes from financing cashflows, changes arising from obtaining or losing control of companies, the effect of change in foreign exchange rates, changes in fair values, and other changes are disclosed.

The disclosures are provided in the form of a reconciliation between the opening and closing balances in the statement of financial position.

In the form of a reconciliation, the Group shows the changes between the opening and closing balances of the related financial liabilities and financial assets

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.

IMPROVEMENTS TO IFRS 2014 – 2016

In the Annual Improvements to IFRSs (2014–2016) there were amendments to three IFRSs, of which only the following was to be applied in 2017.

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).

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

IFRS 9 Financial Instruments sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has an obligation to apply IFRS 9 Financial Instruments as of January 1, 2018.

I. Classification – Financial assets
IFRS 9 contains a new classification and measurement approach for financial assets which reflects the business model in which the assets are held and the properties of their cashflows.

IFRS 9 contains three important classification categories for financial assets: measured at amortized cost, at fair value through profit and loss (FVTPL) and at fair value through other comprehensive income (FVOCI). The standard eliminates the existing categories of IAS 39: held to maturity, loans and receivables and available for sale.

According to IFRS 9, derivatives embedded in contracts in which the basis is a financial asset in the scope of the standard should never be recognized separately. Rather the hybrid finance instrument is assessed on the basis of the classification.

On the basis of its assessment, the Group does not believe that the new classification requirements will have a material impact on accounting.

II. Impairment – financial assets and contract assets

IFRS 9 replaces the "incurred loss model" of IAS 39 with a forward-looking model of "expected credit losses". This requires considerable judgment in respect to the extent the expected credit losses are impacted by economic factors. This assessment is determined on the basis of weighted probabilities.

The new impairment model is required for financial assets measured at amortized cost or at FVOCI and to contract assets.

According to IFRS 9, impairments were measured on the following bases:

— 12-month credit losses: These are expected credit losses due to possible credit losses within 12 months after the reporting date.

— Lifetime credit losses: These are expected credit losses due to possible credit losses during the expected life of a financial instrument.

Measurement in line with the concept of the lifetime credit losses is required when on the reporting date the credit risk of a financial asset has significantly increased since initial recognition; otherwise measurement in line with the concept of 12-month credit losses is to be used. A company can determine that the credit risk of a financial asset has not risen significantly if the asset has a low credit risk on the reporting date. However, measurement in line with the concept of lifetime credit losses is required for trade receivables and for contract assets without a material financing component. The Group has decided to use this method also for trade receivables and for contract assets with a material financing component.

The Group is of the opinion that it is likely that impairments for assets in the scope of the IFRS impairment model will increase and become more volatile.

III. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

However, according to IAS 39 all changes in the fair value of liabilities determined as being measured at fair value are recognized through profit and loss, while in accordance with IFRS 9 these changes in fair value are to be presented as follows:

— The change of the fair value due to the change of the credit risk of the liability is recognized in other comprehensive income.

— The remaining change of fair value is recognized in profit and loss.

The assessment by the Group showed no material effects in respect to the classification of financial liabilities as of January 1, 2018.

IV. Hedge accounting

On initial application of IFRS 9, the Group has the option of continuing to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. The Group has decided to apply the new requirements of IFRS 9.

According to IFRS 9, the Group must ensure that accounting for hedge relationships is in line with the objectives and strategy of Group risk management and that a more qualitative and future-oriented approach is applied when assessing the effectiveness of hedging transactions. In addition, IFRS 9 introduces new requirements in relation to the new weighting of hedging relations and forbids the voluntary termination of accounting for hedging transactions. In line with the new model, it is possible that more risk management strategies fulfill the conditions for accounting for hedge transactions. This particularly applies to those which contain a risk-hedging component (with the exception of foreign currency risk) of a non-financial item.

The Group has not currently implemented any material hedges of such risk components and for this reason assesses the effect as of January 1, 2018 as immaterial.

V. Disclosures
IFRS 9 requires extensive new disclosures, particularly on hedge accounting, on credit risk and on expected credit defaults. The assessment by the Group includes an analysis for identifying whether there are data gaps in comparison to the current method; the Group intends to introduce system and control changes which it deems necessary for the required data capture.

VI. Transition
Changes of accounting methods as a result of the application of IFRS 9 are applied retrospectively, except in the following cases:

- The Group will utilize the option not to restate comparative information for prior periods in respect to changes in classification and measurement (including impairment). Differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 are recognized in retained earnings and other reserves as of January 1, 2018.

- New accounting regulations for hedge accounting are applied prospectively.

- The assessments below are to be made on the basis of facts and circumstances which exist at the time of the initial application:
  - Determination of the business model in whose context a financial asset is held
  - Determination and revocation of earlier determinations in respect to specific financial assets and financial liabilities recognized as FVTPL

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 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 Programs.

The Group must apply IFRS 15 Revenues from Contracts with Customers as of January 1, 2018. Here revenues must be recognized as soon as a customer obtains control over the subject matter of the contract.

The Group provides services in the form of consultancy, licenses, cloud subscription and managed services. The individual services are based on separate contractual agreements.

I. Licenses
Revenues from the sale of licenses are currently 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.

II. Consulting
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.

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.

Income from the performance of customer-specific construction contracts and services is currently 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.

III. Cloud Subscription
Cloud subscription involves the rental of database capacity.

Revenues from cloud subscription are distributed evenly over the period that performance is rendered.

IV. Managed Services
In the area of managed services, the itelligence Group provides application-based services to support IT organizations. This also includes revenues from customer support and IT hosting for SAP server system environments.

Revenues from managed services are realized when performance is rendered.

Based on the assessment of these transactions by the Group, no material impact is anticipated from the application of IFRS 15 on the consolidated financial statements.

V. Transfer
In the transition to IFRS 15, the Group intends to use the modified retrospective method in its consolidated financial statements according to which the cumulated adjustment amounts are recognized as of January 1, 2018. As a result, the Group will not apply the requirements of IFRS 15 on each comparative period presented.

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.

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 will not apply IFRS 16 early.

The Group has commenced the assessment of the potential impact on its consolidated financial statements of the application of IFRS 16 without being able to quantify this at the current point in time. A decision on which transitional method is to be used has not yet been made.

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 (IFRS 17) 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 solutions:

— Deferral of first-time application of IFRS 9: Entities whose primary activity is insurance operations and that continue to apply IFRS 4 to existing insurance contracts may continue to apply IAS 39 instead of IFRS 9 for fiscal years beginning before January 1, 2021. This only applies if IFRS 9 has not been applied previously. From fiscal year 2018, selected information is to be integrated into the notes to allow a certain comparability with entities which already use IFRS 9. In the context of the endorsement, under certain conditions the EU extended the scope of this option to insurance companies within finance conglomerations.

— 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.

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.

The amendments are effective for fiscal years beginning on or after January 1, 2018.

IMPROVEMENTS TO IFRS 2014 – 2016

In the Annual Improvements to IFRSs (2014–2016) there were amendments to three IFRSs, of which the following two are to be applied in 2018.

— 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.

The amendments have no significant effect on the presentation in the consolidated financial statements of itelligence AG:

b) EU endorsement outstanding

IFRS 17 – INSURANCE CONTRACTS

IFRS 17 replaces IFRS 4 and thus for the first time establishes standard principles for the recognition, measurement, presentation and disclosure of notes to insurance contracts, reinsurance contracts and investment contracts with discretionary profit participation. According to the measurement model of IFRS 17, groups of insurance contracts are measured based on expectations of discounted cashflows with an explicit risk adjustment for non-financial risk and a contractual service margin which results in profits being reported in line with the performance being rendered.

“Insurance revenue” is not premium income in each period, but the changes from the liability to grant coverage are recognized for which the insurance entity receives a fee and the part of the premium which covers acquisition costs. Investment components paid or transferred are not recognized as revenue or income or expenses in the income statement. Insurance financing income and expenses result from discount effects and financial risks. Depending on the portfolio, they can be recognized either in the income statement or in other comprehensive income.

Changes in the assumptions which do not relate to interest rates or financial risks are not recognized directly in the income statement but recognized against the contractual service margin and thus distributed across the period in which service is to be rendered. Only for such groups of insurance contracts which are onerous is there direct recognition of changes in estimates.

IFRS 17 provides an approximative procedure for short-running contracts which maps the obligation to grant coverage as was previously the case with unearned premiums. Under IFRS 17, liabilities from incurred but not processed claims are to be discounted at the relevant current interest rates. For large parts of the life insurance business with profit participation, IFRS 17 modifies the recognition measurement model by also recognizing changes in the shareholders’ share in the development of the results sources underlying the profit participation in the contractual service margin and distributing them over the remaining period of providing service.

IFRS 17 is – subject to endorsement in EU – effective for reporting periods beginning on or after January 1, 2021. Early application is permitted. To the extent that a retrospective application is not possible, the contractual service margin can be determined at the transition point on the basis of a modified retrospective procedure or on the basis of the comparison of the experience value of the discounted cashflow and risk adjustment with the fair value at the time of transition.

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 interpretation to have a material impact on the consolidated financial statements.

AMENDMENTS TO IFRS 9 – PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

The amendments relate to a narrow-scope adjustment of the assessment criteria relevant for the classification of financial assets. Under certain conditions, financial assets with a repayment feature with negative compensation may be recognized at amortized cost or at fair value through other comprehensive income instead of at fair value through profit of loss.

Subject to endorsement in EU law, the amendments are effective for fiscal years beginning on or after January 1, 2019.

The Group does not currently expect the interpretation to have a material 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 IAS 28 – LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

The amendments contain a clarification that IFRS 9 is to be applied to long-term interests in associates or joint ventures to which the equity method is not applied.

Subject to endorsement in EU law, the amendments are effective for fiscal years beginning on or after January 1, 2019.

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

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 interpretation 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.

IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

The tax treatment of certain facts and transactions can depend on future recognition by the tax authorities or the tax courts. IAS 12 Income Taxes regulates the accounting of current and deferred taxes. IFRIC 23 supplements the regulations in IAS 12 regarding uncertainties relating to the income tax treatment of facts and transactions.

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, 2019. 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 2015 – 2017

The Annual Improvements to IFRSs (2015 – 2017) resulted in amendments to four IFRSs.

In IFRS 3 it is clarified that when an entity obtains control over a business in which it previously held interests in the context of a joint operation, the principles of business combinations achieved in stages is to be applied. Interests previously held by the acquirer are to be remeasured.

In IFRS 11 it is determined that when obtaining joint control over a business in which it previously held interests in the context of a joint operation, a party does not remeasure the previously held interests.

IAS 12 is changed so that the income tax consequences of dividend payments are to be considered in the same way as the income on which the dividends are based.

Finally in IAS 23 it is defined that when determining the capitalization rate if an entity borrows general funds for the purpose of obtaining qualified assets, borrowing costs taken up specifically for the purpose of obtaining qualified assets are not to be recognized until completion.

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, 2019. 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, 2017, 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, 2017:

CONSOLIDATED COMPANIES	Equity interest in %	Equity	Profit/loss for the year
KEUR (unless otherwise stated)			
itelligence Services GmbH, Bielefeld/Germany	100	305	18,762[1,2]
itelligence International Business Service Holding GmbH, Bielefeld/Germany	100	841	619[1]
itelligence Global Managed Services GmbH (until 20 December 2017 itelligence Outsourcing & Services GmbH), Bautzen/Germany	100	1,226	5,573[1,2]
itelligence AG, Regensdorf/Switzerland	100	9,251	2,176
itelligence Business Solutions (UK) Ltd., London/United Kingdom	100	25,681	4,734
Recruit Company GmbH, Munich/Germany	100	126	-43
itelligence Hungary Kft., Budapest/Hungary	100	4,154	669
itelligence Inc., Cincinnati/USA	100	28,031	2,361
itelligence International, Kiev/Ukraine	100	-151	-27
itelligence Ltd., Moscow/Russia	100	304	160
itelligence a.s., Brno/Czech Republic	100	2,450	-467
itelligence Slovakia s.r.o., Bratislava/Slovakia	100	301	150
itelligence SP.Z.o.o., Warsaw/Poland	100	10,074	577
itelligence VC-Holding GmbH, Frankfurt am Main/Germany	100	-175	-7
Servicios informaticos itelligence S.A., Barcelona/Spain	100	3,612	-117
ITC Information Technology Consulting Gesellschaft für Netzwerkmanagement und Systemintegration mbH, Detmold/Germany	56	933	260
itelligence Outsourcing MSC Sdn. Bhd., Cyberjaya/Malaysia	100	4,327	694
itelligence Asia Holding Ltd., Hong Kong/China	100	1,201	-2
itelligence Consulting Shanghai Ltd., Shanghai/China	100	2,931	260
itelligence Benelux Holding B.V., Eindhoven/Netherlands	100	9,219	-386
itelligence Business Solutions s.p.r.l., Brussels/Belgium	100	-332	-430
itelligence B.V., Eindhoven/Netherlands	100	487	-1,451
itelligence France SAS, Paris/France	100	3,014	23
itelligence Canada Ltd., Montreal/Canada	100	329	-36
itelligence a/s Denmark, Horsens/Denmark	90	17,623	3,810
itelligence a/s Norway, Oslo/Norway	100	3,734	1,445
itelligence AB, Sweden	100	147	10
itelligence Bilgi Sistemleri a.s., Istanbul/Turkey	100	7,618	2,129
itelligence Business Solutions Canada Inc., Toronto/Canada	100	3,070	1,272
itelligence India Software Solutions Private Ltd., Hyderabad/India	100	9,206	1,016
GISA GmbH, Halle an der Saale/Germany	51	9,884	700
ICS adminservice GmbH, Leuna/Germany	100	888	116
itelligence Software Solutions W.L.L, Qatar	49	-475	-211
BIT Group GmbH, Bautzen/Germany	100	9,012	5,885
BIT Verwaltungs GmbH, Bautzen/Germany	100	3,269	-1,827
XEGO GmbH, Dresden/Germany	100	54	51
BIT IT Services Co. Ltd, Shanghai/China	100	86	0
itelligence Ireland Ltd, Ireland	100	-59	-60
New Goldfish B.V., Rotterdam/Netherlands	100	3,882	-87
Goldfish Solutions B.V., Rotterdam/Netherlands	100	3,787	103
Pinetree Solutions B.V., Waardenburg/Netherlands	100	227	4
Goldfish ICT Services B.V., Rotterdam/Netherlands	100	4,305	955
Goldfish ERP Resources B.V., Rotterdam/Netherlands	100	345	75
vCentric Technologies Private Limited, Hyderabad/India	100	-236	82
Companies over which no significant influence is exercised			
BfL Gesellschaft des Bürofachhandels mbH & Co. KG, Eschborn/Germany	under 1	16,741	3,493
TBV ProVital Lemgo GmbH & Co. KG, Lemgo/Germany	7.47	-34	-644
Xego it GmbH, Dresden/Germany (until February 19, 2018, Neckarsee 409.V V GmbH)	50	25	0

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

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

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.

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	
KEUR	**2017**	2016	**2017**	2016
Equity interest	10	10	49	49
Non-current assets	13,939	9,659	16,199	16,130
Current assets	21,883	24,030	21,107	19,589
Non-current liabilities	1,104	1,004	10,513	10,372
Current liabilities	17,095	18,849	15,529	15,934
Equity	17,623	13,836	11,264	9,413
Equity attributable to non-controlling interests	**1,762**	**1,384**	**5,519**	**4,612**
Revenues	64,378	54,508	98,544	93,161
Profit/loss for the year	3,810	4,298	3,431	3,164
Profit/loss for the year attributable to non-controlling interests	**381**	**430**	**1,681**	**1,550**
Total cashflow	**-3,219**	**-120**	**-2,895**	**-1,638**
Dividends paid to non-controlling interests	**0**	**141**	**878**	**1,200**

ADDITIONS TO THE CONSOLIDATED GROUP IN THE CURRENT YEAR

Acquisition of 100% of the shares in the Goldfish Group, Netherlands
itelligence acquired 100% of the shares in New Goldfish ICT, Utrecht by way of a purchase agreement dated May 22, 2017. With the acquisition of Goldfish ICT, itelligence is pressing ahead with its expansion and significantly increasing its market presence in the Benelux region. Both companies benefit from this transaction. With this acquisition, itelligence is expanding its market position in the Benelux states. Goldfish ICT gains access to itelligence's extensive global SAP expertise.

The purchase price for 100% of the shares amounted to KEUR 15,344, of which KEUR 10,215 were cash-effective and KEUR 5,129 related to a previously non-cash earn-out liability. This was determined on the basis of the planned EBITA for the next three years. The maximum payment amount is KEUR 6,000. Ancillary costs of KEUR 298 were recognized in other operating expenses. As not all information relevant for recognition was available as of the reporting date, a detailed purchase price allocation will be implemented in fiscal year 2018 by May 22, 2018. In particular, there was a provisional measurement of the fair values of intangible assets at Goldfish (orders on hand and customer relationships) until there is a complete independent assessment. The goodwill capitalized in the context of the acquisition is allocated to the West Europe segment and relates to the non-separable intangible assets.

The initial consolidation took place on June 1, 2017, so that a pro rata profit for seven months of KEUR 2,180 and revenues of KEUR 10,469 were recognized. If the financial statements of the Goldfish Group had been consolidated on January 1, 2017, there would have been a profit of KEUR 3,162 and revenues of KEUR 18,320.

The following table shows the estimated fair values of the acquired assets, liabilities and contingent liabilities at the acquisition date:

ACCOUNTED VALUES AT THE ACQUISITION DATE

KEUR	
Non-current assets	
Intangible assets	26
Property, plant and equipment	395
	421
Current assets	
Trade receivables	3,197
Other financial assets	265
Cash and cash equivalents	1,853
Prepaid expenses	571
	5,886
Current liabilities	
Trade payables	588
Other current liabilities and provisions	2,409
Deferred income	971
	3,968
Net assets	**2,339**
Goodwill from the acquisition of the group (non-tax-deductible)	13,005
Purchase price	**15,344**
of which previously non-cash earn-out liability	5,129
of which already cash-effective	10,215
Assumed liquid assets in the context of the acquisition	1,853
Actual outflow of cash for the acquisition	**8,362**

Trade receivables cover the gross contractual amounts receivable of KEUR 3,232, KEUR 43 of which were not expected to be collected at the acquisition date.

Acquisition of 100% interest in der vCentric Technologies pvt. Ltd., India
itelligence acquired 100% of the shares in vCentric Technologies Private Limited, Hyderabad, India, by way of a purchase agreement dated September 16, 2017. The acquisition will assist itelligence in expanding its offer across the whole of India, thus more effectively and more efficiently supporting local and international customers

The purchase price for 100% of the shares was KEUR 3,213. Ancillary costs of KEUR 106 were recognized in other operating expenses. As not all information relevant for recognition was available as of the reporting date, a detailed purchase price allocation will be implemented in fiscal year 2018, by September 16, 2018. In particular, there was a provisional measurement of the fair values of intangible assets at vCentric (orders on hand and customer relationships) until there is a complete independent assessment. The goodwill capitalized in the context of the acquisition is allocated to the America segment and relates to the non-separable intangible assets, e.g. the expected synergies from integrating the company into the itelligence Group and the staff.

The initial consolidation took place on October 1, 2017, so that a pro rata profit for three months of KEUR 82 and revenues of KEUR 3,060 were recognized. If the financial statements of the vCentric Technologies had been consolidated on January 1, 2017, there would have been a loss of KEUR 1,697 and revenues of KEUR 12,713.

The following table shows the estimated fair values of the acquired assets, liabilities and contingent liabilities at the acquisition date:

ACCOUNTED VALUES AT THE ACQUISITION DATE KEUR	
Non-current assets	
Intangible assets	13
Property, plant and equipment	151
	164
Current assets	
Trade receivables	3,210
Other current assets	860
Cash and cash equivalents	350
Prepaid expenses	91
	4,511
Non-current liabilities	
Financial liabilities	**605**
Current liabilities	
Trade payables	590
Other current liabilities	3,037
Financial liabilities	511
Deferred income	242
	4,380
Net assets	**-310**
Goodwill from the acquisition of the group (non-tax-deductible)	3,523
Purchase price	**3,213**
of which already cash-effective	3,213
Assumed liquid assets in the context of the acquisition	350
Actual outflow of cash for the acquisition	**2,863**

Trade receivables cover the gross contractual amounts receivable of EUR 2,245, KEUR 330 of which were not expected to be collected at the acquisition date.

Acquisition of other shares

On March 16, 2017, itelligence AG acquired a further 5.0% interest in itelligence a.s., Czech Republic. Accordingly, it now holds a 100% interest in the company and its subsidiary itelligence Slovakia s.r.o., Slovakia.

The table below shows the impact on the level of the equity interest held by itelligence AG in itelligence a.s., Czech Republic. On the acquisition date, the carrying amount of the net assets of itelligence a.s. Czech Republic in the consolidated financial statements was KEUR -3,070.

KEUR	
Carrying amount of the acquired non-controlling interest	-153
Purchase price paid to non-controlling interest	210
Decline of retained earnings of the owners of the parent company	**-57**

E. CONSOLIDATION PRINCIPLES

itelligence AG and all of 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.

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.

For 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 the exception of IAS 39 is used so that these are recognized using the cost method, providing that the company does not exert any significant influence. There is no intention to sell the interest.

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	
	1 EUR =	**2017**	2016	**Dec. 31, 2017**	Dec. 31, 2016
America	USD	1.1270	1.1061	1.1993	1.0541
Switzerland	CHF	1.1102	1.0901	1.1702	1.0739
UK	GBP	0.8758	0.8166	0.8872	0.8562
Poland	PLN	4.2558	4.3631	4.1770	4.4103
Turkey	TRY	4.1092	3.3375	4.5464	3.7072
Czech Republic	CZK	26.3166	27.0343	25.5350	27.0210
Denmark	DKK	7.4387	7.4454	7.4449	7.4344
Hungary	HUF	309.256	311.440	310.330	309.830
Russia	RUB	65.7156	73.8120	69.392	64.300

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 cashflows of the asset or cash-generating unit and the choice of an appropriate discounting rate to calculate the present value of these cashflows. Long-term earnings forecasts based on general economic conditions and industry developments must be made to estimate future cashflows.

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 is 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: America, 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 cashflows 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 cashflow (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	
Workstations, PCs, etc.	3
Mainframe computers and routers	5
Data processing systems	5
Network technology	10
Leasehold improvements	**8 to 15**
Operating and office equipment	**8 to 10**
Technical equipment and machinery	**7 to 10**

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 of 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.

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.

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 CASHFLOWS

The statement of cashflows 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 cashflows are shown in the statement of cashflows. 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 cashflows from operating activities, investing activities and financing activities.

The cash and cash equivalents disclosed consist of cash in hand and bank balances.

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	2017	2016
DACH	417,883	364,564
Western Europe	200,055	177,625
America	145,210	135,708
Eastern Europe	87,826	83,284
Asia	14,274	12,488
Other	6,953	4,241
	872,201	**777,910**

KEUR	2017	2016
Consulting	358,153	331,411
Licenses	87,897	78,956
Cloud Subscription	14,077	6,573
Managed Services	408,539	360,162
Other	3,535	808
	872,201	**777,910**

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 itelligence Group provides application-based services to support IT organizations. This also includes revenues from customer support and IT hosting for SAP server system environments.

Revenues in the amount of KEUR 23,750 were recognized in accordance with the percentage of completion method (previous year: KEUR 22,376). Costs of KEUR 18,400 were incurred for these unbilled services (previous year: KEUR 17,289). In total, a margin of KEUR 5,350 was generated (previous year: KEUR 5,087).

2. REVENUES

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

The cost of sales comprises the following expenses:

KEUR	2017	2016
Purchased merchandise and services	265,545	229,192
Personnel expenses	331,493	301,101
Depreciation, amortization and write-downs	23,181	21,420
Other expenses	55,525	49,341
Amortization of orders on hand	6,022	3,177
	681,766	**604,231**

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	2017	2016
Personnel expenses	65,373	59,508
Depreciation, amortization and write-downs	483	469
Other expenses	15,884	14,919
	81,740	**74,896**

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	2017	2016
Personnel expenses	50,344	45,994
Depreciation, amortization and write-downs	3,914	4,033
Other expenses	19,447	14,551
	73,705	**64,578**

5. OTHER OPERATING INCOME

KEUR	2017	2016
Income from exchange rate differences and consolidation	3,150	3,801
Income from investment grants and subsidies	252	386
Gains from the sale of non-current assets	54	65
Income from the triggering of contingent purchase price payments	0	919
	3,456	**5,171**

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 of December 31, 2016. The payment in this amount was made by March 31, 2017.

6. OTHER OPERATING EXPENSES

KEUR	2017	2016
Expenses from exchange rate differences and consolidation	3,344	2,132
Bad debt allowances on receivables	670	1,211
Acquisition costs	404	1,097
Losses from asset disposals	270	36
	4,688	**4,476**

7. MEASUREMENT OF DERIVATIVES AND EXERCISE OF OPTIONS

KEUR	2017	2016
Expenses from the measurement of options	-3,141	-1,975
Expenses from the exercise of options	-210	-1,960
Expenses from derivatives	-350	0
Income from derivatives	164	106
Income from the measurement of options	0	101
Income from the exercise of options	0	22
	-3,537	**-3,706**

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 0 (previous year: KEUR 101). Expenses from plan excess of KEUR 3,141 (previous year: KEUR 1,975) were incurred in this context.

Expenses of KEUR 560 (previous year: KEUR 1,960) and income of KEUR 0 (previous year: KEUR 22) were generated from exercising put and call options and from the measurement of derivatives.

To hedge exchange rate fluctuations for items of the statement of financial position in fiscal year 2017, currency forwards were concluded which resulted in income of KEUR 22 (previous year: KEUR 5). Furthermore, income of KEUR 142 was generated in connection with the measurement of an embedded derivative as of the end of the year (previous year: KEUR 101).

8. FINANCIAL INCOME/FINANCE COSTS

KEUR	2017	2016
Financial income	199	144
Finance costs	-3,999	-2,260
	-3,800	**-2,116**

Financial income contains interest received from bank balances and short-term fixed deposits (category: loans and receivables). KEUR 1,649 of finance costs (previous year: KEUR 2,226) 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

KEUR	2017	2016
Current tax expense		
Current year	-11,033	-10,572
Adjustments for previous years	-433	-66
	-11,466	-10,638
Deferred taxes		
Formation and reversal of temporary differences	3,310	284
Income/expenses from the change in tax rates	1,635	0
Recognition of tax losses not previously recognized	152	376
Loss carryforwards not utilized and written down	-1,314	-936
	3,783	-276
Tax expense	**-7,683**	**-10,914**

Current taxes are calculated on the basis of current tax rates. A combined tax rate of 31.50% (previous year: 31.47%) 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 15.67%. 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 31.50% (previous year: 31.47%) was assumed for Germany and a rate of between 10.0% and 34.0% (previous year: between 10.0% 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	2017	2017	2016	2016
Earnings before income taxes		**26,441**		**29,092**
Taxes on the basis of the domestic tax rate of the company	-31.50%	-8,328	-31.47%	-9,155
Difference to foreign tax rates and change in tax rates	14.31%	3,785	6.54%	1,902
Tax loss carryforwards not utilized and written down	-4.97%	-1,314	-3.22%	-936
Utilization of unrecognized loss carryforwards	0.57%	152	1.29%	376
Differences due to non-tax-deductible expenses and tax-free income	-6.81%	-1,800	-10.24%	-2,981
Backpayment and reimbursement of taxes for previous years	-1.64%	-433	-0.22%	-66
Other differences	0.97%	255	-0.19%	-54
Reported income tax expense	-29.07%	**-7,683**	**-37.51%**	**-10,914**

10. EARNINGS PER SHARE

Basic earnings

		2017	2016
Net profit after non-controlling interests	KEUR	16,845	16,868
Weighted average number of ordinary shares	Shares	30,014,838	30,014,838
Earnings per share (basic)	EUR	0.56	0.56

I. STATEMENT OF FINANCIAL POSITION DISCLOSURES

11. INTANGIBLE ASSETS

Development of intangible assets as of December 31, 2017:

COST KEUR	IT software	Finance leases	Orders on hand and customer relationships	Goodwill	Intangible assets
January 1, 2017	**23,192**	**4,854**	**24,448**	**151,141**	**203,635**
Exchange differences	-114	-571	-947	-5,360	-6,992
Additions	3,407	260	5,843	16,528	26,038
Additions due to business combinations	13	0	26	0	39
Reclassifications	1,687	-1,413	13,994	-13,994	274
Disposals	-1,499	0	0	0	-1,499
December 31, 2017	**26,686**	**3,130**	**43,364**	**148,315**	**221,495**

CUMULATIVE DEPRECIATION KEUR	IT software	Finance leases	Orders on hand and customer relationships	Goodwill	Intangible assets
January 1, 2017	**-14,690**	**-3,172**	**-12,243**	**-8,350**	**-38,455**
Exchange differences	155	380	473	285	1,293
Additions (scheduled amortization)	-3,723	-566	-6,022	0	-10,311
Reclassifications	-1,141	1,141	0	0	0
Disposals	1,207	0	0	0	1,207
December 31, 2017	**-18,192**	**-2,217**	**-17,792**	**-8,065**	**-46,266**
Carrying amounts as of December 31, 2017	**8,494**	**913**	**25,572**	**140,250**	**175,229**

Development of intangible assets as of December 31, 2016:

COST KEUR	IT software	Finance leases	Orders on hand and customer relationships	Goodwill	Intangible assets
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 KEUR	IT software	Finance leases	Orders on hand and customer relationships	Goodwill	Intangible assets
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 as of December 31, 2016	**8,502**	**1,682**	**12,205**	**142,791**	**165,180**

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, 2017: 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. 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 2017 orders on hand and customer relationships of KEUR 13,994 (previous year: KEUR 0) were separated in the context of the final purchase price allocation of goodwill. KEUR 6,022 of the orders on hand and customer relationships capitalized were worked off or amortized in the fiscal year under review (previous year: KEUR 3,177).

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 16,528 in fiscal year 2017 (previous year: KEUR 37,994).

itelligence constantly tests goodwill for impairment using the DCF method (fair value in use). The cashflows 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.

in %	Average cost of capital		Long-term growth rate		Planned EBIT growth rate (average for next five years)	
	2017	2016	**2017**	2016	**2017**	2016
America	7.92	7.87	1	1	23	16
DACH	6.79	7.32	1	1	23	23
Western Europe	7.40	7.65	1	1	23	19
Eastern Europe	12.01	12.26	1	1	20	9

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 2017 was performed as of June 30. Also as in the previous year, no impairment was identified for the goodwill recognized by itelligence.

KEUR	America	DACH	Western Europe	Eastern Europe	Total
Statement of financial position as of 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 of December 31, 2016	**26,255**	**51,979**	**52,052**	**12,505**	**142,791**
Additions	3,523	0	13,005	0	16,528
Reclassifications	0	-13,994	0	0	-13,994
Exchange rate differences	-3,118	-174	-590	-1,193	-5,075
Statement of financial position as of December 31, 2017	**26,660**	**37,811**	**64,467**	**11,312**	**140,250**

The estimated recoverable amount for the Eastern Europe CGU exceeds the carrying amount for the CGU by KEUR 17,436. 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 cashflow 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, 2017:

COST KEUR	Land, buildings and leasehold improvements	Assets under development	IT hardware	Operating and office equipment	Finance leases	Property, plant and equipment
January 1, 2017	**49,537**	**9,054**	**80,201**	**14,868**	**32,251**	**185,911**
Exchange differences	-2,046	0	-1,118	-249	-1,433	-4,846
Additions	4,278	6,577	8,469	2,766	12,527	34,617
Additions due to business combinations	214	0	145	187	0	546
Reclassifications	5,543	-8,840	6,165	120	-3,262	-274
Disposals	-327	0	-2,020	-336	-145	-2,828
December 31, 2017	**57,199**	**6,791**	**91,842**	**17,356**	**39,938**	**213,126**

CUMULATIVE DEPRECIATION KEUR	Land, buildings and leasehold improvements	Assets under development	IT hardware	Operating and office equipment	Finance leases	Property, plant and equipment
January 1, 2017	**-13,516**	**0**	**-56,490**	**-8,467**	**-10,344**	-88,817
Exchange differences	252	0	702	317	645	1,916
Additions (scheduled depreciation)	-2,322	0	-9,262	-2,396	-9,309	-23,289
Reclassifications	0	0	-2,607	-115	2,722	0
Disposals	112	0	1,957	221	128	2,418
December 31, 2017	**-15,474**	**0**	**-65,700**	**-10,440**	**-16,158**	**-107,772**
Carrying amounts as of December 31, 2017	**41,725**	**6,791**	**26,142**	**6,916**	**23,780**	**105,354**

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

COST KEUR	Land, buildings and leasehold improvements	Assets under development	IT hardware	Operating and office equipment	Finance leases	Property, plant and equipment
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 KEUR	Land, buildings and leasehold improvements	Assets under development	IT hardware	Operating and office equipment	Finance leases	Property, plant and equipment
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 as of December 31, 2016	**36,021**	**9,054**	**23,711**	**6,401**	**21,907**	**97,094**

Purchase obligations for property, plant and equipment amounted to KEUR 244 as of December 31, 2017.

As of December 31, 2017, properties with a carrying amount of KEUR 22,400 (previous year: KEUR 17,694) had encumbrances in the amount of KEUR 10,342 (previous year: KEUR 12,093) to secure bank loans.

13. OTHER FINANCIAL ASSETS

KEUR	Dec. 31, 2017	Dec. 31, 2016
Security deposits	1,840	925
Loans to employees	488	756
Other financial receivables	335	493
Term deposits	232	230
Partial retirement receivables	77	185
Other investments	24	10
Recovery receivables from third parties	0	2,637
	2,996	**5,236**

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

KEUR	Dec. 31, 2017	Dec. 31, 2016
Other non-current financial assets	877	863
Other current financial assets	2,119	4,373
Other financial assets	**2,996**	**5,236**

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 38 (previous year: KEUR 45).

In the previous year, the recovery claims from third parties consisted of compensation committed to itelligence in the context of a business combination performed in 2013.

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. In addition, itelligence acquired shares in Xego it GmbH at the end of the year.

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

14. TRADE RECEIVABLES

KEUR	Dec. 31, 2017	Dec. 31, 2016
Trade receivables	175,180	155,341
Receivables from unbilled services (POC)	23,750	22,376
Unbilled receivables	13,689	9,032
Trade receivables from NTT	6,228	4,433
	218,847	**191,182**
Bad debt charge on trade receivables	-4,000	-4,336
	214,847	**186,846**
Non-current trade receivables	1,403	1,410
Current trade receivables	213,444	185,436
Trade receivables	**214,847**	**186,846**

Specific valuation allowances developed as follows:

KEUR	
December 31, 2015	**4,373**
Exchange differences	123
Reversal	-1,094
Utilization	-1,434
Addition	2,368
December 31, 2016	**4,336**
Exchange differences	-55
Reversal	-910
Utilization	-952
Addition	1,581
December 31, 2017	**4,000**

The reported amount of receivables from unbilled services (POC) of KEUR 23,750 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 29 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, 2017**	Dec. 31, 2016
Value-added tax and other taxes	1,338	314
Other non-financial receivables	1,166	900
Advance payments	324	603
Prepayments for social security	26	7
	2,854	**1,824**

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

TEUR	**Dec. 31, 2017**	Dec. 31, 2016
Other current non-financial assets	2,854	1,824
Other non-financial assets	**2,854**	**1,824**

16. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

KEUR	**Dec. 31, 2017**	Dec. 31, 2016
Deferred tax assets:		
Provisions and liabilities	6,049	6,325
Intangible assets and property, plant and equipment	4,958	1,404
Trade receivables	514	721
Loss carryforwards	426	764
Netted against deferred tax liabilities	-9,932	-3,036
	2,015	**6,178**
Deferred tax liabilities:		
Intangible assets and property, plant and equipment	13,770	12,066
Adjustment for percentage of completion method	6,842	3,610
Other financial assets	1,534	260
General warranty provision	295	330
Provisions and liabilities	176	1,912
Netted against deferred tax assets	-9,932	-3,036
	12,685	**15,142**

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.

KEUR	Net as of January 1, 2017	Recognized in profit/ loss	Recognized directly in equity	Net as of December 31, 2017	Deferred tax assets as of December 31, 2017	Deferred tax liabilities as of December 31, 2017
Intangible assets	-2,143	1,001	-5,329	-6,471	0	-6,471
Property, plant and equipment	-8,519	6,177	0	-2,342	4,957	-7,299
Trade receivables including POC	-2,889	-3,439	0	-6,328	514	-6,842
Other financial assets	-260	-1,274	0	-1,534	0	-1,534
Financial liabilities derivatives	341	-208	0	133	133	0
Other provisions and liabilities	3,101	-59	0	3,042	3,218	-176
Pension provisions	971	1,888	-161	2,698	2,698	0
General warranty provision	-330	35	0	-295	0	-295
Loss carryforwards	764	-338	0	426	426	0
Tax assets (and liabilities) before offset	**-8,964**	**3,783**	**-5,490**	**-10,671**	**11,946**	**-22,617**
Tax offset				0	-9,932	9,932
Net tax assets (liabilities)				**-10,671**	**2,014**	**-12,685**

In addition to deferred tax assets of KEUR 3,783 (see note 9), a reduction in deferred tax assets of KEUR 161 and an increase of deferred tax liabilities of KEUR 5,329 was recognized in equity. The reduction in deferred tax assets relates to the actuarial gains on the measurement of pension provisions in fiscal year 2017. The increase in deferred tax assets relates to the capitalization of intangible assets in the context of the final purchase price allocations (see note 11).

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 2017 relate to loss carryforwards of KEUR 1,372 (previous year: KEUR 2,702) that were measured at the future tax rate. A tax rate of 31.50% (previous year: 31.47%) was assumed for Germany and a rate of between 10.0% and 34.0% (previous year: between 10.0% 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 2,149 (previous year: KEUR 3,490). 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		Forfeitability
Czech Republic	1,930	After five years
Belgium	146	Non-forfeitable
Qatar	36	After three years
Sweden	23	Non-forfeitable
Ukraine	14	Non-forfeitable
	2,149	

17. CASH AND CASH EQUIVALENTS

KEUR	**Dec. 31, 2017**	Dec. 31, 2016
Current account balances and cash in hand	**49,307**	**57,733**

Current account balances are non-interest-bearing.

18. PREPAID EXPENSES

KEUR	**Dec. 31, 2017**	Dec. 31, 2016
Advanced payments for servicing work	8,681	8,838
Insurance	4,954	7,867
Other	6,043	5,219
	19,678	**21,924**

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, 2017.

Contingent capital

There was no contingent capital as of December 31, 2017.

20. CAPITAL RESERVES

The capital reserves contain the premiums from the shares issued.

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 2017 was 30.19% (previous year: 30.43%).

21. NET ACCUMULATED PROFIT

KEUR	
Net accumulated profit as of January 1, 2016	72,962
Consolidated net profit	16,868
Net accumulated profit as of December 31, 2016	**89,830**
Consolidated net profit	16,845
Net accumulated profit as of December 31, 2017	**106,675**

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 2017.

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, 2016	-13,559
Exercise of options	4,165
Actuarial losses as per IAS 19	-589
Currency translation	-5,543
As of December 31, 2016	**-15,526**
Exercise of options	-153
Actuarial gains as per IAS 19	349
Currency translation	-9,385
As of December 31, 2017	**-24,715**

23. FINANCIAL LIABILITIES

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

KEUR	**Dec. 31, 2017**	Dec. 31, 2016
Loans from NTT	138,041	124,171
Finance lease liabilities	24,654	22,483
Amounts due to banks	9,645	12,844
Liabilities from put options	9,302	6,067
Liabilities from purchase price obligations	7,689	3,998
Liabilities from financial derivatives	423	1,084
Other loans	199	66
	189,953	**170,713**

Liabilities from purchase price obligations consist of contingent consideration in connection with business combinations conducted in previous years. In fiscal year 2017 there were no changes in the measurement of the contingent consideration for acquisitions conducted in previous years (see note 5).

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

KEUR	**Dec. 31, 2017**	Dec. 31, 2016
Non-current financial liabilities	163,341	103,489
Current financial liabilities	26,612	67,224
	189,953	**170,713**

Non-current financial liabilities are broken down as follows:

KEUR	**Dec. 31, 2017**	Dec. 31, 2016
Liabilities from put options	**9,302**	**6,067**
Liabilities from financial derivatives	**292**	**840**
Liabilities from purchase price obligations	**2,585**	**1,248**
From NTT	138,041	124,171
of which current	-9,476	-51,606
	128,565	**72,565**
Amounts due to banks		
to banks in Germany	8,433	12,698
to banks outside Germany	1,212	146
of which current	-2,137	-4,501
	7,508	**8,343**
From other loans		
from other loans in Germany	0	0
from other loans outside Germany	199	66
of which current	-166	-22
	33	**44**
From finance leases		
from finance leases in Germany	16,367	13,275
from finance leases outside Germany	8,287	9,208
of which current	-9,598	-8,101
	15,056	**14,382**
	163,341	**103,489**

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	9,302	9,302	0
(Previous year)	(6,067)	(6,067)	(0)
Liabilities from financial derivatives	292	292	0
(Previous year)	(840)	(840)	(0)
From NTT	128,565	0	128,565
(Previous year)	(72,565)	(72,565)	(0)
Amounts due to banks	7,508	5,128	2,380
(Previous year)	(8,343)	(3,926)	(4,417)
From other loans	33	33	0
(Previous year)	(44)	(44)	(0)
Finance lease liabilities	15,056	15,056	0
(Previous year)	(14,382)	(14,382)	(0)
Liabilities from purchase price obligations	2,585	2,585	0
(Previous year)	(1,248)	(1,248)	(0)
December 31, 2017	**163,341**	**32,396**	**130,945**
December 31, 2016	**(103,489)**	**(99,072)**	**(4,417)**

As part of the acquisition of shares in 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 0.61% (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 950.

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 294.

The discounted values for the put and call options in connection with the acquisitions conducted are as follows as of December 31, 2017:

KEUR	Total	of which current	of which non-current
Liabilities from put and call options for 2C change	9,302	0	9,302
(Previous year)	(5,867)	(0)	(5,867)
Liabilities from put and call options for SAPCON	0	0	0
(Previous year)	(200)	(0)	(200)
December 31, 2017	**9,302**	**0**	**9,302**
December 31, 2016	**(6,067)**	**(0)**	**(6,067)**

In 2016, the liabilities to NTT related to two long-term loans and one short-term loan granted by NTT DATA Corporation, Japan. In addition, a cash pooling account was concluded between NTT DATA Corporation and itelligence. The latter remains in force. However the loans were replaced by two long-term loans from NTT DATA EUROPE GmbH & Co. KG. All 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	Total	of which current	of which non-current
Loan from March 14, 2017/10-year term	1.45	119,931	1,366	118,565
(Previous year)		0	0	0
Loan from May 18, 2017/10-year term	1.76	10,109	109	10,000
(Previous year)		0	0	0
Loan from Feb. 27, 2015/3-year term	0.839	0	0	0
(Previous year)		(68,456)	(491)	(67,965)
Loan from Feb. 26, 2016/2-year term	0.7	0	0	0
(Previous year)		(4,628)	(28)	(4,600)
Loan from Jun. 23, 2016/256-day term	0.5	0	0	0
(Previous year)		(17,048)	(17,048)	(0)
Cash pooling account	0.25	8,001	8,001	0
(Previous year)		(34,039)	(34,039)	(0)
December 31, 2017		**138,041**	**9,476**	**128,565**
December 31, 2016		**(124,171)**	**(51,606)**	**(72,565)**

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	
KEUR	**2017**	2016	**2017**	2016	**2017**	2016
Due within one year	10,194	8,862	596	761	9,598	8,101
Due between one and five years	15,742	14,892	686	510	15,056	14,382
Due after five years	0	0	0	0	0	0
	25,936	**23,754**	**1,282**	**1,271**	**24,654**	**22,483**

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

KEUR	**2017**	2016
Germany		
Credit facilities available as of December 31	18,000	17,000
Utilization through loans	-90	-3,237
Utilization through guarantees	-442	-249
Unutilized credit facilities	**17,468**	**13,514**
Abroad		
Credit facilities available as of December 31	18,047	17,586
Utilization through loans	-892	-146
Utilization through guarantees	-4,616	-306
Unutilized credit facilities	**12,539**	**17,134**
Average interest rate	1.03%–17.0%	0.85%–13.0%

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, 2017**	Dec. 31, 2016
Finance lease liabilities	9,598	8,101
Loans from NTT	9,476	51,606
Liabilities from purchase price obligations	5,104	2,750
Bank overdrafts	982	3,383
Liabilities from financial derivatives	131	244
Current portion of non-current financial liabilities		
to banks in Germany	963	1,118
to banks outside Germany	192	0
from other loans outside Germany	166	22
	26,612	**67,224**

The financial liabilities as of December 31, 2017 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.

The change in liabilities impacted the cashflow as follows:

KEUR	Put and call options	Deriva-tives	Finance leases	Cash advances and loans NTT	Cash advances and loans	Credit facilities	Minority interests	Time deposits	Total
As of December 31, 2016	**6,067**	**1,084**	**22,483**	**124,171**	**9,527**	**3,383**	**8,669**	**230**	**175,614**
As of December 31, 2017	**9,302**	**423**	**24,654**	**138,041**	**8,862**	**982**	**9,773**	**232**	**192,269**
Delta	3,235	-661	2,171	13,870	-665	-2,401	1,104	-2	16,6551
Taking up finance leases			12,787						12,787
Other non-cash transactions	3,746	-661			816	303	2,048		6,252
Total non-cash translations	**3,746**	**-661**	**12,787**	**0**	**816**	**303**	**2,048**	**0**	**19,039**
Payments from put and call options	-511								-511
Payments from finance leases			-10,616						-10,616
Payments for taking up finance leases				144,665	559	2,147			147,371
Payments for repaying finance leases				-130,795	-2,040	-4,851			-137,686
Dividends paid to non-controlling interests							-944		-944
Decrease in long-term deposits								-2	-2
Effect on cashflow from financing activities	**-511**	**0**	**-10,616**	**13,870**	**-1,481**	**-2,704**	**-944**	**-2**	**-2,388**

24. OTHER PROVISIONS

Other provisions developed as follows in fiscal year 2017:

KEUR	January 1, 2017	Currency	Utilization	Reversal	Addition	December 31, 2017	of which non-current
Provisions for potential losses	2,827	-3	-1,939	-433	1,417	1,869	729
Credit notes to be issued	259	-2	-218	0	366	405	0
Severance payments	582	0	-468	0	386	500	0
Warranties	1,332	-42	-836	-560	1,566	1,460	0
Court costs	252	14	-144	-122	0	0	0
Partial retirement	633	0	-395	-88	360	510	170
Miscellaneous other provisions	4,170	141	-3,512	-269	1,707	2,237	0
	10,055	**108**	**-7,512**	**-1,472**	**5,802**	**6,981**	**899**

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 52 for the legal rights of employees in Austria to severance pay. In addition, provisions were recognized for employees who will leave the Group in 2018.

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, 2017, provisions of KEUR 510 were recognized on the basis of partial retirement commitments for 19 employees. The discount rate was 0.00% (previous year: 0.00%). Provisions were offset against plan assets.

In the previous year, 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:

ACCOUNTING ASSUMPTIONS in %	2017	2016
Interest rate	1.2–1.6	1.1 – 1.6
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 1,890.

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, 2017. 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	**2017**	2016
Service cost	1,320	681
Interest expense	199	241
Interest income from plan assets	-69	-89
Net pension expenses	**1,450**	**833**

Changes in plan assets:

KEUR	**2017**	2016
Projected value as of January 1	5,564	5,270
Contributions added	595	485
Interest income from plan assets	69	89
Pension payment of the funds	-221	-296
Actuarial gains (+)/losses (-)	15	16
Value of plan assets as of December 31	**6,022**	**5,564**
Current return on plan assets	84	105

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	**2017**	2016
Dynamic pension obligations as of January 1	14,439	13,393
Acquired service benefits	1,320	681
Interest expense for claims already acquired	199	241
Benefits paid	-576	-750
Actuarial gains (+)/losses (-)	-494	874
Dynamic pension obligations as of December 31	**14,888**	**14,439**

Development of other comprehensive income:

KEUR	**2017**
Other comprehensive income as of January 1, 2017	-2,858
Income from plan assets (not including interest income)	15
Net actuarial gains (+)/losses (-)	334
Other comprehensive income as of December 31, 2017	**-2,509**

KEUR 509 (gains) of gross actuarial gains/losses relates to changes in financial assumptions, while KEUR 15 (gains) relates to changes in demographic assumptions.

The changes in net pension provisions are shown in the following table:

KEUR	**2017**	2016
Net carrying amount as of January 1	8,875	8,123
Service cost	1,320	681
Net interest expense	130	152
Actuarial losses (+)/gains (-)	-509	858
Addition to plan assets	-595	-485
Pension payments	-355	-454
Net carrying amount as of December 31	**8,866**	**8,875**

The table below shows the historical changes over the past five years:

KEUR	2017	2016	2015	2014	2013
Defined benefit obligation	14,888	14,439	13,393	14,250	2,919
Cash surrender value of the employer's pension liability insurance policy	-6,022	-5,564	-5,270	-4,851	-1,557
Financing status	**8,866**	**8,875**	8,123	9,399	1,362

The Group expects to transfer contributions of KEUR 600 to plan assets in 2018.

The maturity profile of forecast pension payments (discounted) is as follows:

KEUR	
Due within one year	574
Due between one and five years	1,773
Due after five years	12,541
	14,888

The weighted average term of dynamic pension obligations is 16.4 years at itelligence AG (previous year: 17.8 years) and 12.2 years at GISA GmbH (previous year: 12.7 years).

Occupational pensions are made up of defined contribution and defined benefit systems. In the reporting year, a total of KEUR 33,435 was paid into defined contribution pension systems (previous year: KEUR 29,410). The expenses incurred at the German Group companies (employer contributions to statutory German pension insurance) amount to KEUR 17,408 (previous year: KEUR 15,337).

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.

As of the end of the reporting period, the company reported non-current liabilities in connection with government grants in the amount of KEUR 2,389 (previous year: KEUR 2,276). In the year under review, other operating income was recognized in the amount of KEUR 252 (previous year: KEUR 386). Amounts are generally recognized in profit or loss over the useful life of the subsidized assets.

27. OTHER NON-FINANCIAL LIABILITIES

KEUR	Dec. 31, 2017	Dec. 31, 2016
Bonuses and salaries	34,257	34,167
Accrued vacation	12,387	11,227
Advance payments received	11,179	13,436
Sales tax	10,479	11,641
Social security	6,185	6,231
Wage and church taxes	5,212	4,424
Services yet to be rendered	4,852	5,914
Taxes on income	2,196	1,834
Legal, consulting and audit costs	951	890
Employer's liability insurance	815	881
Restoration obligations	316	551
Levy in lieu of employing the severely disabled	151	196
Other	3,045	2,378
Other non-financial liabilities	**92,025**	**93,770**

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

KEUR	**Dec. 31, 2017**	Dec. 31, 2016
Other non-current non-financial liabilities	658	551
Other current non-financial liabilities	91,367	93,219
Other non-financial liabilities	**92,025**	**93,770**

28. TRADE PAYABLES

KEUR	**Dec. 31, 2017**	Dec. 31, 2016
Trade payables to third parties	53,873	45,528
Liabilities to NTT	962	1,435
Trade payables from outstanding invoices	16,439	15,873
	71,274	**62,836**

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 cashflows with the market interest rates in effect as of December 31.

The following table shows the carrying amounts and fair values of all categories of financial assets and liabilities:

DECEMBER 31, 2017 KEUR	Note	Held for trading	Available for sale	Held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Carrying amounts	Fair value
December 31, 2017								
Cash and cash equivalents	17	-	-	-	49,307	-	49,307	49,307
Trade receivables	14	-	-	-	214,847	-	214,847	214,847
Other financial assets	**13**	**-**	**24**	**1,840**	**1,132**	**-**	**2,996**	**2,996**
Financial assets		-	24	1,840	265,286	-	267,150	267,150
Trade payables	28	-	-	-	-	-71,274	-71,274	-71,274
Financial liabilities								
Loans	23	-	-	-	-	-147,885	-147,885	-121,352
Finance leases	23	-	-	-	-	-24,654	-24,654	-25,936
Put options	23	-9,302	-	-	-	-	-9,302	-9,302
Purchase price obligations	23	-7,689	-	-	-	-	-7,689	-7,689
Other derivative financial instruments	23	-423	-	-	-	-	-423	-423
Financial liabilities		**-17,414**	**-**	**-**	**-**	**-243,813**	**-261,227**	**-164,702**

DECEMBER 31, 2016 KEUR	Note	Held for trading	Available for sale	Held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Carrying amounts	Fair value
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**

Interest rates of between 0.14% (previous year: 2.40%) and 1.05% (previous year: 2.46%) 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 cashflow. 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, 2017 KEUR	Derivatives	Purchase price obligations	Put/call options	Total
Total	**-423**	**-7,689**	**-9,302**	**-17,414**
of which level I	0	0	0	0
of which level II	-423	0	0	-423
of which level III	0	-7,689	-9,302	-16,991

DECEMBER 31, 2016 KEUR	Derivatives	Purchase price obligations	Put/call options	Total
Total	**-1,084**	**-3,998**	**-6,067**	**-11,149**
of which level I	0	0	0	0
of which level II	-1,084	0	0	-1,084
of which level III	0	-3,998	-6,067	-10,065

The impact on earnings is shown in note (7).

Level III financial instruments relate largely to put and call options in connection with the acquisitions conducted in the amount of KEUR 9,302. 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 (10.0%; previous year: 11.0% to 12.0%) and the forecast EBIT margins (9.5% to 13.2%; previous year; 17.0% to 19.0%).

Contingent purchase price obligations for company acquisitions in the amount of KEUR 7,689 (previous year: KEUR 3,998) continue to be recognized as level III financial instruments. The change in liabilities from purchase price obligations was recognized entirely in equity and resulted from payments and from new purchase price obligations entered into in the fiscal year.

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, 2017	-6,067
Expenses from the exercise of options	-210
Expenses from the measurement of options	-3,141
Interest expenses	-294
Exercise of options outside profit or loss	410
As of December 31, 2017	**-9,302**

31. OTHER FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES

Other financial obligations

Other financial obligations relate essentially to the annual costs for renting premises and equipment, land and leases for cars. The resulting lease installments and rental payments are recognized directly as expenses in profit or loss. The expenses amounted to a total of KEUR 10,513 in fiscal year 2017 (previous year: KEUR 9,488).

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.

The maturity structure of other future financial obligations is as follows:

KEUR	Dec. 31, 2017	Dec. 31, 2016
Due within one year	33,020	25,720
of which from operating leases	11,607	10,418
Due between one and five years	33,969	34,937
of which from operating leases	15,171	16,529
Due after five years	8,398	8,013
of which from operating leases	0	0
Total	**75,387**	**68,670**
of which from operating leases	**26,778**	**26,947**

Contingent liabilities

Under the terms of a development program, itelligence Outsourcing & Service utilized development loans for investments in the data center in Bautzen with a volume of KEUR 8,342. The inventory has been assigned and there are retentions of title on the financed assets. In addition, itelligence AG has been taken up as a further borrower and has undertaken to make the agreed interest and repayment payments should itelligence Outsourcing & Services be unable to meet its payment obligations.

Between 2010 and 2013, in the context of promoting the improvement of the regional economic structure Sächsische Aufbaubank paid out subsidies of KEUR 3,920 to itelligence Outsourcing & Services. A condition of payment was that itelligence AG assumed joint liability up to an amount of KEUR 596. Joint liability becomes effective as soon as Sächsische Aufbaubank demands the repayment of the investment subsidy, either in whole or in part. Utilization is not anticipated. Furthermore, Sächsische Aufbaubank concluded an agreement with itelligence Outsourcing & Services on the provision, maintenance and additional services of a core bank system. itelligence AG declared it would assume unrestricted liability to Sächsische Aufbaubank for all obligations of itelligence Outsourcing & Services from this contractual relationship.

A number of foreign and German subsidiaries have access to credit facilities of KEUR 21,507 (previous year: KEUR 19,384) 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. At the reporting date of December 31, 2017, these credit facilities were not utilized. Due to the non-utilization of the short-term credit facilities in recent years and sufficient liquid funds in these subsidiaries, there is a very low risk of the guarantees being utilized by the banks.

Furthermore, there are guarantee and letter of comfort obligations in favor of itelligence Russia and itelligence Benelux in the form of general liquidity commitments. In addition, the impaired loans to itelligence England will be treated as subordinate in the case of insolvency. The obligations entered into in favor of affiliated companies are not to be carried as liabilities, as it is expected that the underlying liabilities will be met by the affiliated companies and for this reason utilization is not expected.

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, 2017 and the previous year:

KEUR	America	DACH	Western Europe	Eastern Europe	Asia	Other and consolida-tion	**Group 2017**
Segment revenues	148,244	426,144	209,345	93,668	15,515	7,377	900,293
Intersegment trade	-3,034	-8,261	-9,290	-5,842	-1,241	-424	-28,092
External segment revenues	**145,210**	**417,883**	**200,055**	**87,826**	**14,274**	**6,953**	**872,201**
EBITDA	8,440	35,907	15,230	4,011	2,521	1,248	67,357
Depreciation	-3,145	-14,754	-1,568	-2,375	-1,410	-36	-23,288
Operating segment earnings (EBITA)	5,295	21,153	13,662	1,636	1,111	1,212	44,069
Amortization	-1,168	-7,964	-770	-408	0	-1	-10,311
Operating segment earnings (EBIT)	**4,127**	**13,189**	**12,892**	**1,228**	**1,111**	**1,211**	**33,758**
Investment income	0	1	0	0	0	0	1
Measurement of derivatives and exercise of options	0	-3,537	0	0	0	0	-3,537
Exchange rate differences from financing activities	0	0	0	19	0	0	19
Interest income	71	80	22	25	1	0	199
Interest expenses	-416	-2,995	-165	-270	-148	-5	-3,999
Earnings before tax	**3,782**	**6,738**	**12,749**	**1,002**	**964**	**1,206**	**26,441**
Income taxes	**1,060**	**-3,789**	**-3,148**	**-1,593**	**0**	**-213**	**-7,683**
Consolidated net profit	**4,842**	**2,949**	**9,601**	**-591**	**964**	**993**	**18,758**

KEUR	America	DACH	Western Europe	Eastern Europe	Asia	Other and consolida-tion	**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	-3,656	-13,526	-1,271	-1,946	-1,342	-43	-21,784
Operating segment earnings (EBITA)	7,284	16,896	12,601	2,804	1,431	1,198	42,214
Amortization	-1,547	-4,290	-877	-600	0	-1	-7,315
Operating segment earnings (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**

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	America	DACH	Western Europe	Eastern Europe	Asia	Other	Group 2017
Investments in property, plant and equipment and intangible assets	5,655	34,513	15,040	4,282	1,099	66	60,655
Depreciation and amortization	-4,313	-22,718	-2,338	-2,783	-1,410	-38	-33,600

KEUR	America	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

The information for the divisions relating to revenues is as follows:

KEUR	Consulting	Licenses	Cloud Subscription	Managed Services	Other (unallocated)	Group 2017
Segment revenues	358,153	87,897	14,077	408,539	3,535	872,201

TEUR	Consulting	Licenses	Cloud Subscription	Managed Services	Other (unallocated)	Group 2016
Segment revenues	331,411	78,956	6,573	360,162	808	777,910

33. OTHER DISCLOSURES

a) Cost of materials

The cost of materials calculated using the nature of expense method amounted to KEUR 266,454 in fiscal year 2017 (previous year: KEUR 228,806). This includes inventories of KEUR 184,794 (previous year: KEUR 158,388) that were recognized as an expense in the reporting period. A further KEUR 81,660 (previous year: KEUR 70,418) related to the cost of purchased services.

b) Personnel expenses

Personnel expenses calculated using the nature of expense method totaled KEUR 448,520 in fiscal year 2017 (previous year: KEUR 407,809).

c) Number of employees

The itelligence Group employed an average of 6,267 people in fiscal year 2017 (previous year: 5,276). An average of 665 persons were employed in administration (previous year: 582), 385 in sales (previous year: 354), 3,034 in consulting (previous year: 2,577) and 2,183 in outsourcing & services (previous year: 1,763). The Group had a total of 6,983 employees on December 31, 2017 (previous year: 5,677).

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, 2017)
Norbert Rotter CEO since July 1, 2016	Chairman of the Board, NTT DATA Business Solutions Malaysia Sdn. Bhd. Chairman of the Board, NTT DATA Business Solutions Singapore Pte. Ltd. Chairman of the Board, NTT DATA Business Solutions APAC Pty Ltd. Chairman of the Board, NTT DATA Business Solutions Australia Pty Ltd. Chairman of the Board, NTT DATA Business Solutions Philippines, Inc. Chairman of the Board, PT. Abyor International
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
Koji Ito Member since August 20, 2015 Senior Vice President, Managing Director America & Europe, NTT DATA Corporation, Tokyo, Japan Managing Director, NTT DATA EUROPE Verwaltungs GmbH, Bielefeld, Germany Managing Director, NTT DATA EUROPE GmbH & Co. KG, Bielefeld, Germany	
Ken Tsuchihashi Member since October 12, 2017 Director and Chairman NTT DATA EMEA Ltd., London, United Kingdom	Member of the Supervisory Board of NTT DATA Deutschland GmbH
Jens Christian Derdau Sørensen Employee representative since March 17, 2016 Principal Manager Head of Business Engagement Management	
Mersun Sezer Employee representative since April 28, 2016 Principal Manager Head of Advanced Application Consulting	
Tadashi Uhira Member until June 20, 2017 Director and Chairman NTT DATA EMEA Ltd., London, United Kingdom	Member of the Supervisory Board of NTT DATA Deutschland GmbH

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 2017:

NORBERT ROTTER CEO since July 1, 2016 CFO until June 30, 2016 KEUR	**2017**	2016
Non-performance-related (fixed) remuneration	375	312
Performance-related (variable) current remuneration (current year)	138	134
Performance-related (variable) non-current remuneration (current year)	288	200
Total remuneration for the year	**801**	**646**

HERBERT VOGEL CEO until June 30, 2016 KEUR	**2017**	2016
Non-performance-related (fixed) remuneration	0	250
Performance-related (variable) current remuneration (current year)	0	99
Performance-related (variable) non-current remuneration (current year)	0	273
Total remuneration for the year	**0**	**622**

DR. MICHAEL DORIN CFO since January 1, 2017 KEUR	**2017**	2016
Non-performance-related (fixed) remuneration	200	0
Performance-related (variable) current remuneration (current year)	138	0
Performance-related (variable) non-current remuneration (current year)	34	0
Total remuneration for the year	**372**	**0**

The total remuneration paid to the members of the Management Board for fiscal year 2017 was KEUR 1,173 (previous year: KEUR 1,268).

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.

Remuneration components are 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 or alternatively travel and vehicle allowances. In the case of maintaining two households, a rent allowance is granted.

— 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 2017, this is reported on a pro rata basis in the 2017 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. For the current CEO the monthly pension is EUR 4,500, for the current CFO the monthly pension is EUR 4,000 and for the departed CEO the monthly pension amounts to EUR 10,000. 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 2017 and 2016. 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 of a maximum of two years annual remuneration has 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 125 for remuneration for the remaining months up to December 31, 2017.

The company has pension obligations to the members of the Management Board in the amount of KEUR 595, for which total expenses of KEUR 131 were incurred in 2017.

The financing status developed as follows:

NORBERT ROTTER	2017	2016
KEUR		
Defined benefit obligation	532	480
Cash surrender value of the employer's pension liability insurance policy	-255	-193
Financing status	**277**	**287**

HERBERT VOGEL	2017	2016
KEUR		
Defined benefit obligation	0	2,629
Cash surrender value of the employer's pension liability insurance policy	0	-1,138
Financing status	**0**	**1,491**

DR. MICHAEL DORIN	2017	2016
KEUR		
Defined benefit obligation	63	0
Cash surrender value of the employer's pension liability insurance policy	-41	0
Financing status	**22**	**0**

The company has pension obligations to former members of executive bodies in the amount of KEUR 3,718 (previous year: KEUR 1,218), for which expenses of KEUR 64 were incurred in 2017 (previous year: KEUR 18).

The financing status developed as follows:

KEUR	2017	2016
Defined benefit obligation	3,718	1,218
Cash surrender value of the employer's pension liability insurance policy	-1,816	-589
Financing status	**1,902**	**629**

REMUNERATION OF THE SUPERVISORY BOARD

The following table provides a breakdown of the remuneration of the Supervisory Board for fiscal year 2017 and the previous year:

KEUR	Fixed remuneration component	Committee remuneration	Attendance fees	2017 Total remuneration
Friedrich Fleischmann (Chairman)	75.0	37.5	10.0	122.5
Prof. Heiner Schumacher (Deputy Chairman since March 17, 2016)	37.5	27.5	10.0	75.0
Jens Christian Derdau Sørensen	25.0	5.0	7.0	37.0
Mersun Sezer	25.0	12.5	10.0	47.5
Tadashi Uhira* (until June 20, 2017)	11.8	2.4	3.0	17.2
Koji Ito*	25.0	10.0	8.0	43.0
Ken Tsuchihashi* (since October 12, 2017)	5.4	1.1	3.0	9.5
	204.7	**96.0**	**51.0**	**351.7**

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**

* 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 and itelligence AG have a cash pooling account. In addition, NTT DATA EUROPE GmbH & Co. KG 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 March 14, 2017/10-year term	1.45	119,931	1,366	118,565
(Previous year)		0	0	0
Loan from May 18, 2017/10-year term	1.76	10,109	109	10,000
(Previous year)		0	0	0
Loan from Feb. 27, 2015/3-year term	0.839	0	0	0
(Previous year)		(68,456)	(491)	(67,965)
Loan from Feb. 26, 2016/2-year term	0.7	0	0	0
(Previous year)		(4,628)	(28)	(4,600)
Loan from Jun. 23, 2016/256-day term	0.5	0	0	0
(Previous year)		(17,048)	(17,048)	(0)
Cash pooling account	0.25	8,001	8,001	0
(Previous year)		(34,039)	(34,039)	(0)
December 31, 2017		**138,041**	**9,476**	**128,565**
December 31, 2016		**(124,171)**	**(51,606)**	**(72,565)**

The interest rates are standard market interest rates.

At the end of the year there are also the following trade receivables and payables with companies of the NTT Group:

KEUR	**2017**	2016
Current trade receivables	6,228	4,433
Current trade payables	-962	-1,435

In fiscal year 2017, 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:

REVENUES in KEUR	
Managed Services	11,615
Consulting	10,663
Licenses	175
Cloud Subscription	112
Other	70
	22,635

EXPENSES in KEUR	
Consulting	4,620
Interest expense	1,649
Managed Services	617
Administration	70
Other	21
Cloud Subscription	6
	6,983

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, 2018.

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 cashflows, 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.

The Group is fundamentally subject to interest rate fluctuations on both sides of its statement of financial position.

On the assets side, it is particularly cash and cash equivalents which are subject to an interest rate risk. However, as they currently receive no interest, the interest rate risk is not material.

On the equity and liabilities side, floating-rate interest expenses on current liabilities in connection with the utilization of credit facilities are exposed to the risk of changing interest rates. Given the low utilization of current credit facilities (KEUR 982 as of December 31, 2017 and KEUR 3,383 as of December 31, 2016), there is very little interest rate risk here. Other financial liabilities have fixed rates of interest and are not subject to interest rate rates.

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 cashflows. 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. The maximum credit risk is the carrying amount of the financial assets. 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 4,000 (previous year: KEUR 4,336). 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 25,156 (previous year: KEUR 26,394). Outside Germany, the carrying amounts of trade receivables of KEUR 107,233 is equal to the maximum credit risk (previous year: KEUR 96,283). 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, 2017 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
181,408	151,724	10,557	5,903	2,123	11,101
100%	83.6%	5.8%	3.3%	1.2%	6.1%
of which impaired					
4,000	10	0	34	212	3,744

The Management Board assumes that the amounts past due and not written down 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, 2017, the Group held cash and cash equivalents of KEUR 49,307 (previous year: KEUR 57,733). 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	>5 years	Total
Financial liabilities (without finance leases)	19,008	25,107	136,708	180,823
Liabilities from finance leases	10,194	15,742	0	25,936
Trade payables	71,274	0	0	71,274
Cashflows from financial liabilities as of December 31, 2017	**100,476**	**40,849**	**136,708**	**278,033**

Working capital, which represents the net current assets of an entity (current assets less current liabilities), amounted to KEUR 78,476 as of the end of the year (previous year: KEUR 26,325). 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, 2017, the Group had cash and cash equivalents of KEUR 49,307 (previous year: KEUR 57,733), 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 15, 2017, 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 2017.

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	**2017**	2016
Fees for audits of financial statements by KPMG AG	254	237
Fees for other assurance services	144	209
Fees for tax advisory services	122	61
	520	**507**

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 21, 2018
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, 2017. 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 21, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Original German version signed by:

Kuntz	**Lo Conte**
Wirtschaftsprüfer	Wirtschaftsprüfer

INCOME STATEMENT

GERMAN COMMERCIAL CODE

EUR		1.1. – 31.12.2017		1.1. – 31.12.2016
1. Sales		220,840,628.70		181,946,183.91
2. Increase in work in progress		5,256,633.31		8,445,015.97
3. Other operating income		14,760,110.56		8,233,304.00
4. Cost of materials				
a) Cost of purchased merchandise	-23,769,317.97		-16,966,241.36	
b) Cost of purchased services	-87,545,675.48	-111,314,993.45	-75,202,154.86	-92,168,396.22
5. Personnel expenses				
a) Wages and salaries	-91,157,826.28		-78,957,840.48	
b) Social security, post-employment and other employee benefit costs – of which in respect of post-employment benefits EUR -57,805.00 (previous year EUR -97,204.34) –	-13,326,636.52	-104,484,462.80	-11,255,867.05	-90,213,707.53
6. Depreciation, amortization and write-downs				
a) Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	-15,939,750.33		-2,029,386.32	
b) Write-downs of current assets to the extent that they exceed the write-downs that are usual for the corporation	-3,005,266.67	-18,945,017.00	-5,260,309.34	-7,289,695.66
7. Other operating expenses		-52,896,833.53		-33,292,831.84
8. Income from long-term equity investments – of which in respect of affiliated companies EUR 5,081,432.62 (previous year: EUR 3,613,871.52) –		5,082,199.56		3,614,638.46
9. Income from profit and loss transfer agreements		24,953,775.40		23,210,024.00
10. Other interest and similar income – of which in respect of affiliated companies EUR 1,314,399.28 (previous year:. EUR 1,368,376.50) –		1,329,443.09		1,435,668.48
11. Interest and similar expenses – of which in respect of affiliated companies EUR -1,665,517.03 (previous year: EUR -729,576.86) –		-2,091,427.34		-845,952.35
12. Taxes on income		-367,017.14		-1,836,552.60
13. Earnings after taxes		-17,876,960.64		1,237,698.62
14. Net loss for the year (previous year: net profit)		**-17,876,960.64**		**1,237,698.62**
15. Retained profits brought forward		16,524,949.90		15,287,251.28
16. Net accumulated losses (previous year: net retained profits)		**-1,352,010.74**		**16,524,949.90**

BALANCE SHEET

GERMAN COMMERCIAL CODE

ASSETS EUR		Dec. 31, 2017		Dec. 31, 2016
A. Fixed assets				
I. Intangible assets Purchased concessions, industrial and similar rights and assets and licenses in such rights and assets		2,484,240.00		2,744,605.21
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land	6,078,157.00		6,278,633.00	
2. Technical equipment and machinery	24,011.00		58,805.00	
3. Other equipment, operating and office equipment	2,359,443.00		2,357,232.00	
4. Prepayments and assets under construction	0.00	8,461,611.00	244,333.89	8,939,003.89
III. Long-term financial assets				
1. Shares in affiliated companies	150,607,532.49		159,169,062.98	
2. Loans to affiliated companies	14,515,096.91		15,285,920.21	
3. Other long-term equity investments	23,625.84	165,146,255.24	10,225.84	174,465,209.03
		176,092,106.24		**186,148,818.13**
B. Current assets				
I. Inventories Services in progress		48,612,503.04		43,355,869.73
II. Receivables and other assets				
1. Trade receivables – of which with a remaining term of more than one year EUR 881,404.96 (previous year: EUR 1,410,349.67) –	32,587,144.23		30,040,388.50	
2. Receivables from affiliated companies – of which with a remaining term of more than one year EUR 2,110,000.00 (previous year: EUR 623,311.83) –	45,965,266.79		35,950,170.22	
3. Other assets – of which with a remaining term of more than one year EUR 20,876.76 (previous year: EUR 20,876.76) –	3,658,162.80	82,210,573.82	1,043,213.13	67,033,771.85
III. Cash in hand, bank balances and checks		7,475,084.86		4,992,069.69
		138,298,161.72		**115,381,711.27**
C. Deferred income		**2,887,811.76**		**2,284,149.58**
		317,278,079.72		**303,814,678.98**

EQUITY AND LIABILITIES EUR	Dec. 31, 2017	Dec. 31, 2016
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 accumulated losses (previous year: net retained profits)	-1,352,010.74	16,524,949.90
	74,543,684.10	**92,420,644.74**
B. Provisions		
1. Provisions for pensions and similar obligations	1,023,939.00	1,055,692.00
2. Provisions for taxes	2,002,021.40	2,185,779.00
3. Other provisions	20,790,853.56	20,213,648.36
	23,816,813.96	**23,455,119.36**
C. Liabilities		
1. Payments received on account of orders – of which with a remaining term of one year or less EUR 49,884,762.49 (previous year: EUR 42,270,473.68) –	49,884,762.49	42,270,473.68
2. Trade payables – of which with a remaining term of one year or less EUR 13,300,520.68 (previous year: EUR 12,288,375.33) – – of which with a remaining term of more than one year EUR 35,321.58 (previous year: EUR 0.00) –	13,335,842.26	12,288,375.33
3. Liabilities to affiliated companies – of which with a remaining term of one year or less EUR 20,899,898.03 (previous year: EUR 54,740,882.14) – – of which with a remaining term of more than one year EUR 128,565,000.00 (previous year:EUR 72,565,000.00) –	149,464,898.03	127,305,882.14
4. Other liabilities – of which with a remaining term of one year or less EUR 4,349,577.01 (previous year: EUR 4,135,744.94) – – of which with a remaining term of more than one year EUR 846,001.00 (previous year: EUR 1,261,334.00) – – of which in respect of taxes EUR 3,534,681.20 (previous year: EUR 3,678,141.08) – – of which in respect of social security EUR 37,461.39 (previous year: EUR 16,955.70) –	5,195,578.01	5,397,078.94
	217,881,080.79	**187,261,810.09**
D. Deferred income	**1,036,500.87**	**677,104.79**
	317,278,079.72	**303,814,678.98**

SERVICE & PUBLICATION DETAILS

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