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Questioning Market Leaders For Long Term Investors

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COMPANY INTERVIEW

FALK SAND LINTEC Information Technologies AG

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LINTEC Information Technologies AG



FALK SAND is Chief Financial Officer of LINTEC Information Technologies AG. After taking a degree in Economics at Ruhr-Universität Bochum, Mr. Sand started his professional career as a trainee at a subsidiary of the German Unilever Group. He then spent seven years working as a commercial manager at Unilever subsidiaries in Great Britain. After those companies were sold, Mr. Sand worked for two years for the British ICI Group company

Unichema Chemicals Ltd., again acting as commercial manager. After his return to Germany in 1999 he started off as the commercial manager of oil refinery Mitteldeutsche Erodell-Raffinerie in Leuna before becoming CFO at a microelectronics company in Thuringia. With effect from 1 December 2001, Mr. Sand was appointed CFO at LINTEC Information Technologies AG. To make up for his lack of exercise in the office, Mr. Sand goes in for hill walking and plays golf.

SECTOR – COMPUTERS

(PAM114) TWST: Can we start with a historical sketch and overview of LINTEC Information Technologies?

Mr. Sand: LINTEC was founded by the entrepreneur Hans Dieter Lindemeyer in the early 1990's, right after the reunification of Germany, in the Eastern part of Germany. He has since extended this business to its present size and it has subsequently gone through a series of enormous growth. The company was listed on the Neuer Markt stock exchange in Germany in 1998, and has since grown both internally and through a number of acquisitions of subsidiary businesses in various markets. LINTEC's core market however is the hardware market. LINTEC develops, manufactures and markets its products, mainly personal computers, servers, notebooks and a number of related hardware products. However, LINTEC also has a number of diversified interests in the IT sector through subsidiary companies, particularly in the area of

distribution. The company also has in its portfolio a very promising company in the Bluetooth technology area and there are great expectations for this company to progress very successfully in this market. Furthermore, LINTEC has an interest in the software company Apoll, which develops risk management software. Last but not least, LINTEC also has an interest in a corporate venture capital company, that has a diversified portfolio among other high technology companies all over Germany, particularly in the eastern part of Germany.

TWST: Are you supplying directly to the end user or do you bring in distribution partners at any point?

Mr. Sand: We are selling through specialist dealers and retailers but, through our subsidiary BATAVIA Multimedia AG, we are also supplying the large cash-and-carry chains.

TWST: How would you define your geographic focus currently? Do you have a Pan-European reach?

Mr. Sand: We are predominantly German based, but with a very limited interest in Eastern Europe as well. We are predominantly focusing on the German market and are reaching about 5000 retailers in our country. We do a small amount of export sales, but not a dominant proportion.

TWST: What is your assessment of the computer hardware space? How are you finding market conditions at present and what trends do you see on the 6-12 month horizon that will impact the company?

Mr. Sand: Let's begin with the past. LINTEC has had a very good year in 2001. The market was very difficult; when you look at the major players in the market, with the exception of DELL, all have had a reduction in their business. DELL have very successfully gained market share and they have increased their output in Germany. LINTEC, however, is a small market player. We are a well-known company in Germany; again: our reach is mainly in the German market and in fact we have been quite successful here. Our hardware output in 2001 was 8.6% up as compared to 2000, which is a very good achievement, especially when you consider that the other players in the market have seen a rather difficult year in 2001. Looking forward, I think LINTEC is very proficient to continue this path. Whether we will be seeing growth this year remains to be seen, and depends on the overall economy. However, I'm not going to be as optimistic as many other people are in the market, as far as the development of the economy is concerned. But I feel there is a very good chance for LINTEC for various reasons. The number one reason is that LINTEC is not only engaged in the manufacturing of standard PCs, but is also diversifying its product range more and more; what we call specialized or niche market PCs with very specific applications for very specific customer requirements.

TWST: Can you give us an example of who a specific customer would be and what product you would be tailoring?

Mr. Sand: We have great expectations on one of our products, which is a so-called SENIOR PC, i.e. a PC for the senior part of the population. Not only market studies confirm that the portion of our population aged 50 and beyond has in a way been neglected in the past by computer manufacturers, other sectors of the industry and society as a whole. The result is that they have been cut off a vital part of our society since they are unable to make use of modern means of communication and information. What we do with the LINTEC SENIOR PC is to make all those means available to them as well. Through market research we have found very specific needs; elderly people don't focus much on standard PCs; they want their own product that takes into consideration that they have hardly ever worked or played with computers in their life and that they do not need complicated commands and programs. We have therefore developed a very specific computer with a design that also fits into the regular living room and that has an easy-to-operate user surface which guides the customer through his programs and that will constantly be brought up to specs based on the users' feedback. The point is that these package PCs, as one would call them, are actually able to generate very attractive margins. And this is where I am rather optimistic as far as LINTEC is concerned. Another product is the industrial PC, which is used in the production process in the manufacturing industry. This is a product that promises higher margins as well. The industrial PC market is an established one which we know well enough and again we will be pushing quite successfully to address this market too. And there are other products in the pipeline. The niche market strategy is

the way forward for LINTEC because we are a low volume player in the overall PC market.

TWST: So, is it fair to surmise that flexibility and adaptability is the key to your growth?

Mr. Sand: It is absolutely correct to say that flexibility and adaptability are the keys for LINTEC.

TWST: Just staying with that a moment longer, what else differentiates the company from other, larger competitors?

Mr. Sand: Another point that differentiates LINTEC from established companies in both Western Europe and West Germany and that gives us a competitive advantage is our location in East Germany, because we have cost advantages here. It gives LINTEC a degree of financial flexibility from a competitive point of view.

TWST: Is there any room to increase margins?

Mr. Sand: Margins in the standard PC market are well-known and we are not particularly different in this segment. We are recording satisfactory margins in the standard PC market, but you can double, if not triple the margin for products in niche markets. This is very attractive indeed and we therefore increase our focus and development efforts here.

TWST: What is the overall business strategy going forward? What milestones would you like to reach in the next two years and what should an investor expect from the company?

Mr. Sand: Let's limit it to one year. We have a fairly detailed forecast for the next 12 months, for 2002. 2003 would be speculation and I think there is too much speculation in the market already. As far as LINTEC in 2002 is concerned, we have a very good opportunity to stabilize our business and to consolidate on a solid basis. This is

the important point. We are not trying to expand at any price. We are doing business on a profitable basis only, and this is what I think is important for investors to know. We are looking forward to a profitable and strong year in 2002. We already have a very strong balance sheet and 2002 will be another year of solid financial results. We are not going to see two-digit growth rates on the sales line, but we are going to see a profit this year.

TWST: Would that suggest M & A activity is not part of the near to mid-term strategy?

Mr. Sand: Not at this point in time. We are currently trying to focus on what we have defined as our core business. We are not engaging in adventures. We do have very promising companies within our corporate venture capital portfolio, but we are not going to acquire more businesses at this point in time. We want to consolidate our venture capital businesses to the extent that in two or three years' time, maybe two or more of these companies will have reached a stage where they will present an opportunity for an exit.

TWST: Can you elaborate on the VC aspect, what are the companies that stand out as exit opportunities?

Mr. Sand: You can find our portfolio of companies on the Internet. There are some promising companies including a company called ZOXY AG, which is in the process of developing rechargeable fuel-cell batteries for notebooks. I am sure you know about fuel-cell technology for cars, but this company is developing fuel cells for mobile computers. It is a promising development and they are currently building a factory and are in the second stage of investment for this. Another promising subsidiary is a company called PIN AG, which is challenging the monopoly of the Deutsche Post - the German Postal Services - based on software solutions and logistics technol-

ogy. This is another very promising investment that we have made. The company is well known and expanding across Germany.

Mr. Naumann (Investor Relations): They have developed a city logistics concept, which actually focuses on cities such as Berlin, Potsdam and Dresden and also the western part of Germany, like the Frankfurt area, where they can offer postal services. For instance, picking up letters, parcels, smaller packages from a customer and delivering them wherever they have to go within that area. Not all over Germany, but within a conurbation area such as Frankfurt or Berlin. They do that at a very competitive price compared with the Deutsche Post, and they do it within a very short time period. They even sell their own stamps. **Mr. Sand:** If I could just come back to the investment issue for a moment. We have talked about venture capital, but certainly we could also talk about one other investment that is actually not under venture capital but represents a business segment within the LINTEC Group, and that is rfi mobile technologies AG. Again, this is a subsidiary company which you can find on LINTEC's Website and it is the Bluetooth technology company that I have mentioned before. rfi is a well-known systems technology business in Germany; in fact, it's not just the German number one business for Bluetooth technology but the market leader in that sector on a global scale. They have acquired a number of big contracts; to give you just one example, they have a contract for 5,000 Bluetooth systems and a number of Bluetooth Access Points with bofrost, a German retail company which is specialized in the delivery of frozen food to households. Bofrost is a company with a big logistical challenge behind it and this contract serves as an excellent reference for rfi's capability of developing the

Bluetooth market. It is a very promising business in a very promising field of technology.

TWST: If I put you on the spot, what would you identify as the biggest opportunity in front of you?

Mr. Sand: LINTEC's core business is hardware and software systems and this is where LINTEC's biggest opportunity lies. I think, as we are seeing saturations in the standard PC market, LINTEC is very proficient to bring new products to market for which we already have developed the competency, but which are outside the standard PC range, especially package PC solutions for very specific customers.

TWST: Do you feel the company has been recognized within the investment community and what are your feelings on the valuation that the market has placed on your company?

Mr. Sand: There is scope for better recognition within the investment community certainly in Germany. And the main reason for that is that with the third quarter results of 2001, we have posted a provision for our corporate venture capital investment. This was necessary because as you know the venture capital business is connected with higher risks and major investment has gone into this business with limited exit opportunities at this point in time. In 2001 there were, and in 2002 there will be very few exit opportunities. As you know market conditions are not good enough at the moment for IPOs or trade sales in the Hi-Tech area. As a consequence, we have taken a major charge against 2001 results in the third quarter and we will therefore be posting negative results for 2001 as a whole, but this results from both a non-cash write-off and a negative operating result. So the point that we must make to the investment community is that on a cash basis LINTEC is a solid business. On a cash basis we have had a suc-

successful year in 2001 and we will have a very solid development in 2002.

Mr. Naumann: LINTEC was faced with a very specific situation, particularly last year after the euphoria, as it is usually called over here, of 1999-2000, especially in the Neuer Market Stock Exchange, where many companies went public, taking advantage of a situation in which shareholders were willing to invest their money in new ideas, new companies, newcomers and not just in the Internet business but also other sectors of the industry. By the end of 2000, that euphoria had already dropped considerably. That process continued last year and it's still ongoing to a degree. People have become very cautious and reluctant to invest not just in products but also in companies because of the experience they have had. Of course, this shift in investor sentiment also had an effect on LINTEC's share price, which did drop significantly. But, in comparison with other companies listed on the Neuer Market Stock Exchange, LINTEC still has a share price that is promising and there is a lot of potential there at the moment. LINTEC was faced with a negative situation at the stock exchange last year and that is why we were not able to IPO any of our companies that we had intended to. Another factor is the overall worldwide economic development last year. And furthermore, there was a decline in sales figures not just in the German PC market but worldwide. Just to illustrate this: PC sales in Germany went down something around 18 per cent last year and that had to have an impact on LINTEC's sales figures, too. As a consequence, LINTEC's Board has decided to focus on special and individual solutions when it comes to PCs, and not to concentrate too much anymore on the standard PC as Mr. Sand has illustrated before.

TWST: As a summary, what are the two or three best reasons you would give a long-term investor to take a look at the company?

Mr. Sand: From an operational point of view, we are operating in an environment where LINTEC's resilience is one factor which certainly supports our strategy and makes us stronger compared with some of our competitors. Number two, we have a strong balance sheet. Number three, we are looking forward to the year 2002, during which we will concentrate upon the generation of marketing and profit and not pushing turnover at any price. LINTEC is active in a number of interesting business areas with excellent growth prospects. Mobile computing and communication is just one example. Here we can show our competence especially in the Bluetooth technology. We will demonstrate to the investment community that our Board have a nose for what could be the new trends in the IT market. This is the message that I would give.

TWST: Thank you. (DG)

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CFO

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