

itelligence

Interim Report 1/2003
January 1, 2003 to March 31, 2003

Key Figures for the First Quarter of 2003 at a Glance

- EBITDA: MEUR -0.8 (first quarter of 2002: MEUR 1.1) and EBIT: MEUR -1.6 (first quarter of 2002: MEUR 0.03)
- Growth in Outsourcing & Services up 12.5 percent to MEUR 7.2 (19 percent of total sales)
- the United States reports a successful turnaround, EBIT of MEUR 0.5 in the first quarter of 2003 (first quarter of 2002: MEUR -1.0)
- Sales down year-on-year at MEUR 38.6 (first quarter of 2002: MEUR 43.6)
- Positive cash flow from operating activities of MEUR 1.1 following MEUR -0.7 in the prior year
- Fiscal year 2003: budget adjusted due to restructuring; sales of between MEUR 150 and MEUR 155 forecast; target EBITA of zero; operating cash flow significantly positive; one-off restructuring expenses of about MEUR 4.6

Dear Shareholders,

Mirroring the general economic trend, the markets relevant to itelligence AG reported slow growth at the beginning of 2003. There were no signs of an economic recovery or an improvement on the IT market in the first quarter, nationally or internationally. The first quarter was shaped by project postponements and a reluctance to invest on the part of customers. itelligence's business has stabilized on the whole following a very weak fourth quarter in 2002. The core market in Germany, however, was characterized by a reluctance to invest and a difficult market environment. By contrast, Switzerland, the United States and central and eastern European countries enjoyed strong performance. Despite noticeably stronger pressure from the competition,

we succeeded in winning a high number of new customers and follow-up orders in these countries. Following the successful implementation of the restructuring measures, the United States reported a return to positive EBIT for the first quarter of 2003. Additional adjustments and restructuring measures are being implemented in western and southern Europe in response to the difficult market situation.

Given the persistently poor economic situation, it is extremely important to focus on core competencies and to have a clear positioning and distinct profile. As a full service provider for SAP, we focus on our close and successful partnership with SAP AG. itelligence, which has been awarded numerous SAP titles, has been an SAP Global Services Partner since January 2003. As an SAP Global Services Partner, itelligence belongs to a select group of 11 international companies which collaborate closely with SAP AG on a global level, with a joint business plan and coordinated sales and marketing activities.

itelligence AG's motto at CeBIT 2003 was "Time for the Future". In addition to traditional services and solutions such as mySAP All-in-One based industry solutions and Outsourcing & Services, itelligence employees demonstrated the new SAP technology, NetWeaver, the Solution Manager, customer relationship management and supply chain management solutions as well as SAP portal technology using practical examples. Concepts for increasing efficiency, reducing costs, integrating internal IT systems and optimizing business processes rounded off itelligence's offering at CeBIT 2003. The trend in the number of leads for mid-market and major customers was very pleasing.

itelligence at a Glance: January 1 to March 31, 2003 and 2002

	Jan 1 to Mar 31, 2003 in MEUR	Jan 1 to Mar 31, 2002 in MEUR
Total sales	38.6	43.6
Consulting	27.3	32.7
Licenses	3.7	3.7
Outsourcing & Services	7.2	6.4
Other	0.4	0.8
Germany	20.3	23.8
Rest of Europe	9.8	12.4
Americas	8.5	7.4
EBIT	-1.6	0.03
EBIT margin	-4.1%	0.0%
EBITDA	-0.8	1.1
Net loss according to US GAAP	-2.3	-0.4
Earnings per share	-0.14	-0.03

Sales in the First Quarter

In line with the market and industry trend, itelligence's performance was unsatisfactory during the first quarter. Sales fell from MEUR 43.6 to MEUR 38.6 (down 11.5 percent). Falling sales were reported both in Germany and in the rest of Europe. The consulting and licensing business was parti-

cularly affected by market reticence, especially in the mid-market. Performance in southern and western Europe as well as Brazil fell short of expectations. The United States posted positive sales growth, up from MEUR 6.9 in the first quarter of 2002 to MEUR 8.2 in the same period in 2003.

The US team won numerous consulting projects and SAP

license customers during the first quarter. Major new customers in the first three months included Sauder Woodworking Co., Champion Technologies, Inc., and C&H Sugar Company, Inc. Existing customers such as Sumitomo Mitsubishi Silicon Corporation (SUMCO) and Brakebush also engaged us to carry out follow-up projects. The restructuring measures initiated in the past year at the US subsidiary showed noticeable results in the first quarter. EBIT rose from MEUR -1.0 in the first quarter of 2002 to MEUR 0.5 in the first quarter of 2003.

The sales trend differed from division to division. The traditionally strong consulting division (71 percent of sales) generated sales of MEUR 27.3 in the period under review compared to MEUR 32.7 in the prior-year quarter. We expect the consulting business to stabilize in the coming months thanks to the Global Services Partnership.

Growth in the licensing business was sluggish at the beginning of 2003. Although sales of MEUR 3.7 for the first quarter match the prior year's level (first quarter of 2002: MEUR 3.7), the licensing business failed to meet our expectations overall.

Group-wide, itelligence has orders on hand for more than three months in its consulting business as of March 31, 2003. Orders in the United States have risen further due to the economic recovery over the past few months and currently span more than four months. Outsourcing & Services currently has orders on hand for over seven months. License sales are not included in orders on hand as these are directly recognized as sales.

Outsourcing Builds on Positive Development

itelligence built on its competitive advantage in Outsourcing & Services. In this strategically important growth segment, itelligence has steadily increased its sales share to 19 percent, following on from the excellent results of the last year. We generated sales of MEUR 7.2, a year-on-year increase of 12.5 percent. A major contract won in the United States during the first quarter from ZF Batavia near Cincinnati deserves special mention.

Earnings Situation

During the first three months, the average daily rates for consultants were slightly below the prior year's level. The rate of capacity utilization in the consulting business, especially in Europe and Germany, has fallen.

In terms of cost, the measures of the last year continued to produce positive results, although these results were dampened by the ongoing poor market situation. At MEUR 3.9, sales and marketing expenses matched nearly the level attained in the prior year. Research and development expenses decreased by MEUR 0.1 to MEUR 0.4 in the first quarter of 2003.

General and administrative expenses rose from MEUR 6.8 in the first quarter of 2002 to MEUR 7.2 in the comparative period for 2003. This increase is principally attributable to restructuring expenses (first quarter of 2003: MEUR 0.5).

Following the extremely difficult fourth quarter of the last fiscal year, the earnings situation has improved marginally. On the whole, however, we failed to reach our target earnings for the first quarter. EBITDA dropped to MEUR -0.8, following MEUR 1.1 in the prior-year quarter.

EBIT in the first quarter came to MEUR -1.6 compared to the MEUR 0.03 achieved in the same period for the prior year. However, compared to EBIT of MEUR -4.7 in the fourth quarter of 2002, the result for this first quarter still represents an improvement. Net loss according to US GAAP is MEUR -2.3 (MEUR -0.4 in the prior-year quarter).

The cash flow from operating activities improved from MEUR -0.7 in the first quarter of 2002 to MEUR 1.1 in the first quarter of 2003. itelligence AG's financial requirements have been discussed in detail with and approved by the banks.

itelligence Measures for 2003

Over the past months it has become clear that certain foreign subsidiaries are significantly weakening itelligence's overall performance. In our annual report we announced that we would closely scrutinize the current situation and prospects in the individual countries. We have now largely completed this task. The unsatisfactory situation of certain foreign subsidiaries led to changes at management level at the end of April. This year we will rigorously restructure the branches in question and make adjustments. The aim is to return the foreign subsidiaries to profitability within a short period of time. Based on the successful restructuring in the United States, we are confident that the foreign subsidiaries in question will be able to turn themselves around in the short to medium term.

In addition, in view of the unsatisfactory overall situation, we also plan to reduce central administration and organization expenses. We expect strict cost management to make another positive contribution in 2003.

To enable us to identify and respond to developments at an early stage, we plan to implement additional early warning systems in accounting and controlling. The successfully implemented controlling instruments have been used in a cross-border context since the beginning of 2003 and the two board members, Herbert Vogel and Prof. Dr. Hermann Hueber, have assumed responsibility for restructuring and monitoring these management instruments.

These measures, which have already been implemented at all levels, have improved efficiency at itelligence and made it even more focused. One-off restructuring expenses have been incurred during the current year in this connection. The effects expected in the medium-term should substantially improve the result for the current fiscal year.

Capital Expenditure

itelligence invested a total of MEUR 0.8 during the first quarter of 2003 compared to MEUR 1.6 in the prior-year period. Investing activities essentially focused on Outsourcing & Services and the usual replacements.

Employees

738 of the 1,382 employees as of March 31, 2003 were employed in Germany (prior-year quarter 763) and 644 abroad (prior-year period 699). During the first quarter of 2003, the number of itelligence employees decreased as planned by 80 year-on-year and by 83 compared to the fourth quarter of 2002. The number of employees abroad is also due to decrease further.

Investor Relations

The highlight of the past quarter for Investor Relations was itelligence's administration to Deutsche Börse's Prime Standard segment. The itelligence share has been listed in the technology industry index of the Prime All Share Index since January 1, 2003. An analysts' conference was held at the beginning of April as part of the Financial Forum in Frankfurt. At this conference, the Management Board presented analysts and journalists alike, including those linked up via the internet, the results for 2002 as well as itelligence AG's strategy.

Outlook: itelligence – A Force to be Reckoned With

itelligence AG's performance in the current fiscal year is dependent on the general economic and industry-specific situation. Nevertheless, the Management Board plans to implement all operational measures to ensure a year-on-year improvement in the sales and earnings situation. This applies to making use of and building on the partnership with SAP AG, consolidating the foreign branches under the direct control of the current Management Board and further reducing central overheads. Our aim is to position the Company by the end of the year such that we are well equipped for the recovering global economy in 2004. Sales and earnings for the first quarter have fallen short of expectations. With planned one-off restructuring expenses of about MEUR 4.6, the Management Board forecasts sales of between MEUR 150 and MEUR 155 for fiscal year 2003, with target EBITA of zero and a significantly positive operating cash flow. In 2003, priority will again be given to profitability over sales growth.



Herbert Vogel
CEO

Shareholders

As of March 31, 2003, itelligence AG's shares were held by:

Wolfgang Schmidt	16.2 percent
Vogel family	15.9 percent
Petra Berner	9.0 percent
Frank family	7.6 percent
Lamb family	7.5 percent
Burkhard Berner	4.3 percent
Free float	39.5 percent

Directors' Holdings

Members of the Management Board and Supervisory Board held the following numbers of itelligence shares as of March 31, 2003:

Management Board:	shares
Herbert Vogel	1,657,286
Burkhard Berner*	721,223
Prof. Dr. Hermann Hueber	22,881

Supervisory Board:

Dr. Markus Wenserski	0
Hans-Holger Lamb	0
Dr. Andreas Leimbach	0
Wolfgang Schmidt	2,723,167
Anke Ruff* *	0
Johannes Cordes* *	833

* Withdrew from the Management Board as of April 30, 2003

**Employee representatives on the Supervisory Board, elected in the first quarter

The members of the Management Board in 2003 did not hold convertible bonds of itelligence AG as of March 31, 2003. On the Supervisory board, only the employee representatives hold convertible bonds of itelligence AG: Anke Ruff 4,530 and Johannes Cordes 2,660.

Service

All itelligence AG reports in German and English can be downloaded from the internet at www.itelligence.de. Here you can also register by e-mail for the mailing list for news and press releases under Investor Relations / Dialog. You will then receive the latest news by e-mail.

Important Events in 2003

May 23, 2003	itelligence shareholders' meeting, Frankfurt
August 7, 2003	Publication of the six month report
August 26/27, 2003	Investor conference Financial Forum, Frankfurt
November 6, 2003	Publication of the nine month report

Consolidated Balance Sheet as of March 31, 2003 and 2002 (US-GAAP)

Assets	March 31, 2003 KEUR	March 31, 2002 KEUR	Dec 31, 2002 KEUR
Current assets			
Cash and cash equivalents	5,177	3,496	6,737
Short term investments	250	0	250
Trade accounts receivable, net	31,017	39,230	35,238
Inventories	1,773	2,106	1,956
Prepaid expenses	4,542	4,294	776
Other current assets	2,535	5,858	2,083
Deferred taxes	334	0	316
Total current assets	45,628	54,984	47,356
Non-current assets			
Deferred taxes	243	5,162	293
Computer software	514	766	576
Goodwill	15,477	18,445	15,465
Property, plant and equipment, net	9,517	11,579	10,171
Financial assets	635	539	635
Restricted Cash	2,205	5,113	2,205
Total non-current assets	28,591	41,604	29,345
Total assets	74,219	96,588	76,701

Liability and Shareholders' Equity	March 31, 2003 KEUR	March 31, 2002 KEUR	Dec 31, 2002 KEUR
Current liabilities			
Current liabilities due to banks	6,980	11,099	8.988
Short-term portion of long term debt	2,452	1,442	3.214
Trade accounts payable	13,505	13,315	9.496
Liabilities due to associated companies	42	79	31
Advance payments received	193	125	3.180
Other accruals	8,269	8,504	9.229
Other current liabilities	8,584	9,176	10.410
Deferred taxes	1,182	143	1.164
Tax accruals	354	1,729	325
Deferred income	5,939	6,079	1.826
Total current liabilities	47,500	51,691	47.863
Non-current liabilities			
Pension reserves	189	265	180
Bonds	552	741	557
Other non-current liabilities	8,287	10,607	7.678
Deferred taxes	0	0	0
Total non-current liabilities	9,028	11,613	8.415
Total liabilities	56,528	63,304	56.278
Contingent liabilities	0	0	0
Minority interests	667	234	710
Shareholders' equity			
Common stock (16,771,202)	16,771	16,771	16.771
Capital reserves	19,768	19,768	19.768
Accumulated deficit	-18,596	-585	-16.293
Accumulated other comprehensive loss	-919	-2,904	-533
Total shareholders' equity	17,024	33,050	19.713
Total liabilities and shareholders' equity	74,219	96,588	76.701

Consolidated Statements of Income for the Period January 1 to March 31, 2003 and 2002 (US GAAP)

(all figures in KEUR except for the number of shares and earnings per share)	Jan 1, to Mar 31, 2003 KEUR	Jan 1, to Mar 31, 2002 KEUR
Sales	38,580	43,581
Cost of sales	-28,612	-32,176
Gross profit	9,968	11,405
Operating expenses		
Marketing and selling expenses	-3,872	-3,776
General and administrative expenses	-7,157	-6,768
Research and development expenses	-360	-471
Amortization of goodwill and intangible assets	0	0
Other operating income/expenses, net	-141	-358
Total operating expenses	-11,530	-11,373
Operating loss	-1,562	32
Other income/expenses		
Income from investments	1	8
Exchange differences	-250	0
Interest income/expenses, net	-319	-362
Other income/expenses	-568	-354
Loss before income taxes, minority interests and cumulative effect of change in accounting principle	-2,130	-322
Income taxes	-216	-188
Net loss before minority interests and cumulative effect of change in accounting principle	-2,346	-510
Minority interests	43	83
Effect from change in accounting principle, net of tax	0	0
Net loss	-2,303	-427
Loss per share in EUR – basic	-0.14	-0.03
Loss per share in EUR – diluted	n/a	n/a
Number of shares used to calculate the loss per share:		
- basic	16,771,202	16,771,202
- diluted	17,324,966	17,521,351

Consolidated Statements of Changes in Shareholders' Equity as of March 31, 2003 and 2002 (US GAAP)

	Number of shares issued and outstanding	Common stock KEUR	Capital reserve KEUR	Accumulated deficit KEUR	Accumulated other compre- hensive income/ loss KEUR	Total shareholders' equity KEUR	Comprehensive income/ loss KEUR
December 31, 2001	16,771,202	16,771	19,768	-158	-3,054	33,327	
Net loss for the period				-427		-427	-427
Capital increase							
Foreign currency translation adjustments					94	94	94
Unrealized loss on investments					56	56	56
Comprehensive loss							-277
March 31, 2002	16,771,202	16,771	19,768	-585	-2,904	33,050	
December 31, 2002	16,771,202	16,771	19,768	-16,293	-533	19,713	
Net loss for the period				-2,303		-2,303	-2,303
Impairment of long-term investments							
Foreign currency translation adjustments					-386	-386	-386
Comprehensive loss							-2,689
March 31, 2003	16,771,202	16,771	19,768	-18,596	-919	17,024	

Consolidated Statements of Cash Flow for the Period January 1 to March 31, 2003 and 2002 (US GAAP)

	March 31, 2003 KEUR	March 31, 2002 KEUR
Cash flow from operating activities		
Net loss for the period	-2,303	-427
Adjustments to net loss for the period		
Minority interests	-43	-83
Depreciation and amortization	778	1,104
Depreciation and amortization - impairment test	0	0
Impairment of long-term investment	0	0
Gains/losses from the disposal of non-current assets	-4	0
Decrease/increase in deferred taxes	50	-77
Decrease/increase in pension reserves	9	41
Decrease/increase in inventories	183	334
Decrease/increase in trade accounts receivable	4,221	3,429
Decrease/increase in other assets (current)	-4,218	-4,794
Decrease/increase in trade accounts payable and advance payments received	1,033	-3,652
Decrease/increase in other current liabilities and accruals	1,356	3,456
Cash flow from operating activities	1,062	-669
Cash flow from investing activities		
Investments in intangible assets and property, plant and equipment	-402	-940
Cash received from the disposal of intangible assets and property, plant and equipment	42	0
Investments in financial assets	0	0
Effects from acquisitions, investments and loans	-363	-678
Cash flow from investing activities	-723	-1,618
Cash flow from financing activities		
Liabilities to banks (current)	-2,008	-629
Long-term deposits	0	0
Cash received from the increase in capital reserves	0	0
Change in minority interests (excluding profit shares)	0	0
Issuance of convertible and warrant-linked bonds	-5	-19
Bank liabilities repaid/raised	-173	-625
Loans raised	0	0
Loans repaid	0	0
Cash flow from financing activities	-2,186	-1,273
Foreign exchange rate differences	287	0
Net change in cash and cash equivalents	-1,560	-3,560
Cash and cash equivalents at the beginning of the period	6,737	7,056
Cash and cash equivalents at the end of the period	5,177	3,496
Composition of cash and cash equivalents at the end of the fiscal year		
Banks balances and cash on hand	5,177	3,496

General Information

The consolidated interim financial statements for the period ended March 31, 2003 were prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP). The consolidated financial statements were not reviewed by the auditor. The consolidated interim financial statements account for all current transactions and cut-offs that management deems necessary to present the interim results accurately.

The Company

itelligence AG was formed in May 2000 by a non-cash contribution. Under the merger agreement signed in May 2000, the principal shareholders of SVC AG, Schmidt Vogel Consulting, Bielefeld, and the shareholders of APCON AG, Hamburg, subscribed for approx. 45 percent and approx. 55 percent, respectively, of the Company's shares.

itelligence AG is a leading international full-service provider for SAP. The Company's services range from SAP consulting and licensing, outsourcing & services to proprietary SAP industry solutions and individual software technologies.

The Company has several branches and subsidiaries in Germany. The Company also has subsidiaries in the United States, Switzerland, Austria, Brazil, Italy, Spain, the United Kingdom, Norway, the Czech Republic, Slovakia, the Netherlands, Belgium, France, Poland, Slovenia, Hungary and the Ukraine.

New Accounting Principles

Please refer to pages 47 and 48 in the annual report 2002.

Segment Reporting

Management makes operating decisions based on internal reporting for the following business regions: the Americas, Germany and the rest of Europe. The business regions are reportable segments for the purposes of SFAS 131.

	January 1 to March 31, 2003	
	Sales KEUR	EBIT KEUR
Americas	8,512	385
Germany	20,490	-460
Rest of Europe	10,287	-1,286
Other	780	-55
Consolidation	-1,489	-146
Total	38,580	-1,562

	January 1 to March 31, 2002	
	Sales KEUR	EBIT KEUR
Americas	7,400	-1,136
Germany	23,653	1,433
Rest of Europe	13,772	-1
Other	726	-259
Consolidation	-1,970	-5
Total	43,581	32

Depreciation and Amortization

Depreciation of property, plant and equipment and amortization of intangible assets came to a total of MEUR 0.8 (prior year: MEUR 1.1) in the functions of production, sales and marketing, research and development, and administration.

Exchange Differences From Financing

The strong euro in relation to the Polish zloty influenced the loan financing in Poland very negatively. The loan is for the financing of the computer center in Poznan.

