

itelligence

Interim Report 3/2003
January 1, 2003 to September 30, 2003

Key Figures in the First Nine Months of 2003 at a Glance

- Business in the United States has improved significantly and the market environment in Europe has stabilized at a low level
- Focusing on our core business SAP: discontinuation of non-SAP activities affects overall sales performance
- Measures for a sustained improvement in profitability are being implemented according to schedule – first positive effects on results of operations are noticeable
- Significantly improved EBITA margin (including restructuring costs) of -2.6 percent in the third quarter of 2003 (second quarter of 2003: -9.8 percent)
- Fiscal year 2003: sales and earnings expectations confirmed

Dear Shareholders,

Since the beginning of 2003, the effective and timely implementation of radical structural optimization measures and an improvement in cost structures have taken top priority. The far-reaching measures have been carried out according to schedule and most are now completed. The measures already in place and those initiated are expected to save some MEUR 25.1 in 2004 when their full effect is felt. In the third quarter, we took steps to increase the anticipated annual savings by another MEUR 10.3 against the measures taken up to the end of the second quarter. Improved EBITA in the third quarter shows the first positive effects of the set of measures. We achieved EBITA (EBIT before goodwill amortization) of MEUR -0.9 in the third quarter as compared with MEUR -3.7 in the second quarter. Net of restructuring costs, EBITA improved by MEUR 1.7 against the second quarter. We can therefore report positive EBITA of MEUR 0.2 before restructuring costs in the third quarter.

As a full-service provider for SAP, itelligence AG offers a complete range of services for the entire lifecycle of an IT investment. Our extensive industry know-how and our expertise in integrative growth areas as well as our global collaboration with SAP AG are what convince our customers in the traditional and high-end midmarket. To underpin this strong strategic position, itelligence is focusing its operating activities on its core business SAP. In this connection, we decided in September to discontinue our non-SAP operations. These operations were making high losses due to the current earnings situation, especially in view of the low level of orders on hand and in the pipeline. By concentrating on our core competencies, we have strengthened our position as a leading international full-service provider for SAP.

itelligence has received numerous awards from SAP AG as an SAP partner for small and mid-sized businesses. Since October 2003, itelligence has been a Special Expertise Partner for mySAP Supplier Relationship Management (SRM), making it a member of a select group of partners

whose technical expertise and proven knowledge of SRM processes qualify them as such. With this title, SAP has recognized itelligence's proven expertise in the implementation of SRM projects involving the optimization of supply processes and the transparency of entire procurement and purchasing processes. The successful completion of the SRM projects at Stora Enso Kabel and Nordzucker paved the way for the nomination.

We also presented our broad spectrum of industry solutions at this year's industry fair Systems 2003 in Munich from October 20 to 24. One of the highlights unveiled was the newest industry solution mySAP All-in-One it.hightronics for the high-tech and electronics industry. At Systems, SAP AG presented itelligence AG with the certificate of qualification for the new industry solution. it.hightronics will now be marketed as another qualified mySAP All-in-One industry solution for companies in the high-tech industry. This brings the SAP industry solutions offered by itelligence worldwide to a total of 18, thereof 11 in Germany.

At Systems, Siemens AG and itelligence AG signed a framework agreement on close cooperation between the two companies. This makes itelligence one of the preferred service partners of the Siemens Group for mySAP Business Suite areas such as SCM, CRM, SEM, portals, etc.

Business Development

The third quarter tends to be a weak quarter in the consulting business because it is the time of vacation for customers and employees. As in the two preceding quarters, continuing reluctance to invest in Europe continued to dog the business performance of itelligence AG in the third quarter of 2003. At MEUR 35.3, total sales in the third quarter of 2003 were slightly below the second quarter (MEUR 37.7), as we had expected. Total sales for the first nine months therefore come to MEUR 111.6. This puts us some 13 percent below the prior year's figure of MEUR 128.2, net of exchange rate effects sales are down approx 8.2 percent. In Germany especially, sales were affected by the decrease of approx. MEUR 8.3 in the non-SAP area.

Consulting revenues were some 17 percent down on the same period last year (MEUR 93.8). The reasons for the decrease are the weak German economy, particularly in the non-SAP area (down by around 45 percent) as well as the continuing effects of restructuring in western and southern Europe.

At MEUR 10.7, the license business recorded slightly lower sales than in the prior year (MEUR 12.1). The decrease mainly affected the non-SAP area. For SAP, license sales reached the prior year's level net of exchange rate differences.

Outsourcing & Services performed well. We recorded a 6.9 percent increase in sales to MEUR 21.7.

itelligence at a Glance:

	Jan. 1 to Sep. 30, 2003 in MEUR	Jan. 1 to Sep. 30, 2002 in MEUR	Jul. 1 to Sep. 30, 2003 in MEUR	Jul. 1 to Sep. 30, 2002 in MEUR
Total sales	111.6	128.2	35.3	41.6
Consulting	78.3	93.8	25.0	30.6
Licenses	10.7	12.1	2.6	4.5
Outsourcing & Services	21.7	20.3	7.4	5.7
Other	0.9	2.0	0.3	0.8
Germany	56.3	68.9	17.6	21.7
Rest of Europe	27.3	35.8	8.4	11.8
Americas	28.0	23.5	9.3	8.1
EBIT	-7.7*	1.2	-2.4	0.7
EBIT margin	-6.9%	0.9%	-6.8%	1.7%
EBITA	-6.2*	1.2	-0.9	0.7
EBITA margin	-5.6%	0.9%	-2.6%	1.7%
EBITDA	-3.8*	4.4	0.0	1.7
EBITDA margin	-3.4%	3.4%	0.0%	4.1%
Impairment loss after impairment test	1.5	0.9	1.5	0.9
Impairment loss on financial assets	0	3.8	0	3.8
Net loss according to US GAAP	-9.9	-6.6	-3.1	-5.4
Earnings per share	-0.59	-0.39		

*including restructuring costs of MEUR 3.8 in the first nine months of 2003

In the United States, we were able to build on our good performance in the first half of the year. With sales up 19 percent (43 percent net of exchange rate effects), we have achieved a lasting turnaround. The SAP business in Germany, Austria and Switzerland has seen sales drop by some 12 percent against the prior-year period due to the weakness of the IT sector, while the decrease in eastern Europe is around 18 percent.

Groupwide, itelligence AG has orders on hand worth some MEUR 84 as of September 30, 2003.

Earnings Situation

During the first nine months, the average daily rates for consultants were slightly below the prior year's level. The percentage of fixed price projects has not changed since the prior-year period and accounts for some 20 percent of consulting business.

We continued to work on improving cost structures in the third quarter. As part of the optimization of foreign business, operations were discontinued in Norway as of September 30 in response to the low capacity utilization. In Brazil we reduced capacity to a minimum in line with the new project circumstances. After the sale of our subsidiary in Rome, we set up a new company focusing on the North Italian market in the third quarter, taking on some of our previous employees.

Tangible results and considerable savings at the end of the third quarter demonstrate the successful implementation of the cost-cutting measures taken. Sales and marketing expenses were reduced by 3.3 percent against the prior-year period. Net of the scheduled restructuring costs, we reduced general and administrative expenses by 11.3 percent against the prior-year period. Compared with the previous quarter, the decrease is 21.3 percent net of restructuring costs. Restructuring costs came to a total of MEUR 3.8 at the end of the reporting period. General administration accounted for MEUR 2.8 of this amount.

The gross margin was increased from 19.2 percent in the second quarter to 26.1 percent in the third quarter.

Before restructuring costs, itelligence achieved positive EBITA of MEUR 0.2 in the third quarter following MEUR -1.5 in the second quarter. Looking at the earnings situation after the first nine months of 2003, we generated EBITA of MEUR -6.2 as compared with MEUR 1.2 in the prior-year period. Net of restructuring costs, EBITA was MEUR -2.4.

In accordance with the provisions of the Financial Accounting Standards Board in the United States, itelligence carried out its annual impairment test in the third quarter of 2003, which resulted in an impairment loss of MEUR 1.5.

EBIT was reduced by amortization/depreciation and restructuring costs from MEUR 1.2 in the prior-year period

to MEUR -7.7 in the first nine months of 2003. EBIT is MEUR -3.9 net of restructuring costs.

Net loss according to US GAAP is MEUR -9.9 in the period under review (2002: MEUR -6.6). Earnings per share are disclosed at EUR -0.59 following EUR -0.39 in the first nine months of 2002.

Cash flow was almost balanced, net of cash paid for restructuring, contrasting with a cash flow of MEUR -2.1 in the prior year. Including cash paid for restructuring, cash flow is MEUR -2.6.

Tangible Results of the Set of Measures implemented

In the two previous interim reports in 2003, we informed you about our comprehensive measures to improve the Company's structures and to increase profitability. At the end of the third quarter, we have implemented and completed most of the operational elements of our set of measures. The high level of effectiveness of the various adjustments can be tangibly measured against the first savings realized and the improved earnings situation in the third quarter.

Capacity Adjustments – Personnel capacity in the entire Group was adjusted in the past nine months in response to orders on hand and market conditions. Around 400 jobs were cut in the itelligence Group in the first nine months. The cuts have affected the whole Group, some 200 employees in Germany and a similar number abroad. The related annual cost savings amount to around MEUR 21.3 and account for most of the expected annual cost savings of some MEUR 25.1. We expect to feel the full effect of the cost cuts in 2004.

Strategic and Organizational Optimization – At the end of the first half of the year, the focus in the second phase of measures was on strategic realignment and organizational optimization of the divisions. Guided by the needs of our customers, we rearranged the way we are positioned internationally and our content focus. At the same time, the range of services offered by itelligence AG was redirected toward the core business SAP, with a clear focus on the traditional and high-end midmarket. Non-SAP operations will be discontinued at the end of the current fiscal year. As part of our refocus, we sold our investment (24 percent) in it-WPS Workplace Solutions Gesellschaft für DV-Beratung mbH, Hamburg, in October 2003.

Strengthening the Equity Base and Liquidity – Apart from the operational measures, a lasting improvement in the equity base and liquidity is another integral part of restructuring. In the third quarter, we held intensive talks with potential investors in order to secure new capital and cash for the Company in the next few months.

We also continued to optimize liquidity management and accounts receivable management in the third quarter. Day sales outstanding (DSO) decreased by around 7 days compared to the previous quarter, down from 72 to 65 days.

Risk Report

In the annual report 2002 (pages 37 to 39) and in the six month report 2003 (page 4) we reported in detail on the Company's risk situation. Boosting the equity base and maintaining liquidity remain our top priority in the second half of 2003. In light of the clear success of the restructuring measures, the participating banks have announced to extend the term of the current additional credit line until the end of March 2004 subject to executive body approval. Alongside significantly improving liquidity management, we need to press ahead with further measures to boost our equity base and liquidity.

Capital Expenditure

itelligence invested a total of MEUR 1.8 during the first nine months of 2003 compared to MEUR 2.7 in the prior-year period. Capital expenditure focused on Outsourcing & Services and the usual replacements. At MEUR 0.8, research and development expenses were at the prior year's level.

Employees

677 of the 1,175 staff as of September 30, 2003 were employed in Germany (September 30, 2002: 764) and 498 abroad (September 30, 2002: 708). Another 128 jobs were cut in the third quarter. Overall, the workforce was reduced by 290 employees in the first nine months of 2003 (December 31, 2002: 1,465) as part of the reduction of 400 jobs initiated for fiscal year 2003 as a whole. Employee numbers are being stocked up in certain countries in response to the good business performance, especially in the United States.

Investor Relations

The Management Board held numerous talks with analysts and investors in the third quarter. At the Financial Forum analyst conference in Frankfurt in August 2003, the Management Board presented itelligence AG's results for the first half of the year to analysts and members of the financial press. At the Financial Forum in November this year, we will again seek contact to the financial community and report on the further outcome of the structural adjustments.

Events After the Interim Financial Statements as of September 30, 2003

itelligence Financial Solutions GmbH, Hamburg, filed for insolvency on October 31, 2003. itelligence AG holds an investment of 52 percent in this company, which has

11 employees and sales of MEUR 0.7 in the first nine months of 2003. Concentrating on the core business areas of SAP, itelligence will not invest any more funds in non-focus areas. itelligence is therefore pursuing the objective of a lasting improvement in the Group's profitability without compromise.

Outlook

We expect the market situation to remain rather much the same in the second half of the year. Our close tracking of incoming orders and orders in the pipeline confirms a slight economic upturn in the IT industry. Market analysts and industry associations forecast a turnaround for the IT industry in the first half of 2004. An increase of around 10 percent is predicted for the outsourcing area in particular (PAC 2003, Bitkom October 17, 2003).

We will make further savings during the fourth quarter and improve the earnings situation. Our organization and our comprehensive expertise and range of services make us very well placed to meet market and customer demands. Thanks to our industry expertise and close collaboration with SAP AG, we see ourselves strategically very well positioned as a full-service partner for the traditional and high-end mid-market in order to take advantage of an upswing in the economy.

After the completion of most restructuring measures, we are continuing to review developments in all areas on an ongoing basis in order to underpin the operational boost to business.

If the market continues to develop steadily, the Management Board currently still expects sales of between MEUR 140 and MEUR 145 and an EBITA margin of between -4 and -6 percent.



Herbert Vogel
CEO



Jörg Vandreier
CFO

Shareholders

As of September 30, 2003, itelligence AG's shares were held by:

Wolfgang Schmidt	16.2 percent
Vogel family	15.9 percent
Petra Berner	6.9 percent
Frank family	7.6 percent
Christel Lamb	6 percent
Free float	47.4 percent

Directors' Holdings

Members of the Management Board and Supervisory Board held the following numbers of itelligence shares as of September 30, 2003:

Management Board:	shares
Herbert Vogel	1,657,286
Jörg Vandreier	0
Supervisory Board:	
Prof. Dr.-Ing. Peter-Jürgen Kreher (chairman)	0
Johannes Cordes (deputy chairman and employee representative)	833
Hans-Holger Lamb	0
Dr. Lutz Mellinger	0
Anke Ruff (employee representative)	0
Wolfgang Schmidt	2,723,167

The members of the Management Board in 2003 did not hold convertible bonds of itelligence AG as of September 30, 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 2003/2004

November 26, 2003	Investor conference Financial Forum, Frankfurt
March 25, 2004	Publication of the annual report 2003
May 11, 2004	Publication of the three month report
August 5, 2004	Publication of the six month report
November 9, 2004	Publication of the nine month report

Consolidated Balance Sheet as of September 30, 2003 and 2002 (US-GAAP)

Assets	Sep. 30, 2003 KEUR	Sep. 30, 2002 KEUR	Dec. 31, 2002 KEUR
Current assets			
Cash and cash equivalents	4,172	4,924	6,737
Short term investments	0	0	250
Trade accounts receivable, net	25,065	38,514	35,238
Inventories	1,454	1,541	1,956
Prepaid expenses	1,848	1,631	776
Other current assets	2,292	3,350	2,083
Deferred taxes	272	0	316
Total current assets	35,103	49,960	47,356
Non-current assets			
Deferred taxes	260	5,151	293
Computer software	468	683	576
Goodwill	13,413	16,155	15,465
Property, plant and equipment, net	9,415	9,677	10,171
Financial assets	587	419	635
Restricted Cash	1,873	4,923	2,205
Total non-current assets	26,016	37,008	29,345
Total assets	61,119	86,968	76,701

	Sep. 30, 2003 KEUR	Sep. 30, 2002 KEUR	Dec. 31, 2002 KEUR
Liability and Shareholders' Equity			
Current liabilities			
Current liabilities due to banks	9,988	9,844	8,988
Short-term portion of long term debt	2,639	3,304	3,214
Trade accounts payable	8,391	11,576	9,496
Liabilities due to associated companies	51	62	31
Advance payments received	150	175	3,180
Other accruals	10,687	9,365	9,229
Other current liabilities	7,640	8,626	10,410
Deferred taxes	1,070	138	1,164
Tax accruals	624	986	325
Deferred income	2,637	2,175	1,826
Total current liabilities	43,877	46,251	47,863
Non-current liabilities			
Pension reserves	204	252	180
Bonds	518	574	557
Other non-current liabilities	7,611	9,699	7,678
Deferred taxes	0	0	0
Total non-current liabilities	8,333	10,525	8,415
Total liabilities	52,210	56,776	56,278
Contingent liabilities	0	0	0
Minority interests	318	768	710
Shareholders' equity			
Common stock (16,771,202)	16,771	16,771	16,771
Capital reserves	19,768	19,768	19,768
Accumulated deficit	-26,187	-6,723	-16,293
Accumulated other comprehensive loss	-1,761	-392	-533
Total shareholders' equity	8,591	29,424	19,713
Total liabilities and shareholders' equity	61,119	86,968	76,701

Consolidated Statements of Income for the Period Jan. 1 to Sep. 30, 2003 and 2002 (US GAAP)

(all figures in KEUR except for the number of shares and earnings per share)	Jan. 1, to Sep. 30, 2003 KEUR	Jan. 1, to Sep. 30, 2002 KEUR	July 1, to Sep. 30, 2003 KEUR	July 1, to Sep. 30, 2002 KEUR
Sales	111,586	128,156	35,328	41,560
Cost of sales	-85,147	-94,270	-26,108	-30,261
Gross profit	26,439	33,886	9,220	11,299
Operating expenses				
Marketing and selling expenses	-10,549	-10,911	-3,390	-3,596
General and administrative expenses	-20,967	-20,476	-6,308	-6,905
Research and development expenses	-780	-758	-197	-102
Amortization of goodwill and intangible assets	-1,467	0	-1,467	0
Other operating income/expenses, net	-385	-502	-229	58
Total operating expenses	-34,148	-32,647	-11,591	-10,545
Operating loss (EBIT)	-7,709	1,239	-2,371	754
Other income/expenses				
Income from investments	8	34	8	1
Exchange differences	-351	-448	-33	-50
Impairment loss on financial assets	0	-3,830	0	-3,830
Interest income/expenses, net	-1,027	-1,286	-418	-417
Other income/expenses	-1,370	-5,530	-443	-4,296
Loss before income taxes, minority interests and cumulative effect of change in accounting principle	-9,079	-4,291	-2,814	-3,542
Income taxes	-1,136	-1,137	-431	-716
Net loss before minority interests and cumulative effect of change in accounting principle	-10,215	-5,428	-3,245	-4,258
Minority interests	321	-233	139	-224
Effect from change in accounting principle, net of tax		-904		-904
Net loss	-9,894	-6,565	-3,106	-5,386
Loss per share in EUR – basic	-0.59	-0.39		
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	17,313,049	17,438,228		

Consolidated Statements of Changes in Shareholders' Equity as of Sep. 30, 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				-6,565		-6,565	-6,565
Capital increase							
Foreign currency translation adjustments					-1,109	-1,109	-1,109
Unrealized loss on investments					0	0	0
Impairment of long-term investments					3,771	3,771	3,771
Comprehensive loss							-3,903
September 30, 2002	16,771,202	16,771	19,768	-6,723	-392	29,424	
December 31, 2002	16,771,202	16,771	19,768	-16,293	-533	19,713	
Net loss for the period				-9,894		-9,894	-9,894
Impairment of long-term investments					-1,172	-1,172	-1,172
Foreign currency translation adjustments					-56	-56	-56
Impairment of long-term investments					0	0	0
Comprehensive loss							-11,122
September 30, 2003	16,771,202	16,771	19,768	-26,187	-1,761	8,591	

Consolidated Statements of Cash Flow for the Period Jan. 1 to Sep. 30, 2003 and 2002 (US GAAP)

	Sep. 30, 2003 KEUR	Sep. 30, 2002 KEUR
Cash flow from operating activities		
Net loss for the period	-9,894	-6,565
Adjustments to net loss for the period		
Minority interests	-321	233
Depreciation and amortization	2,289	3,165
Depreciation and amortization – impairment test	1,467	904
Impairment of long-term investment	0	3,830
Gains/losses from the disposal of non-current assets	-4	0
Decrease/increase in deferred taxes	-17	-71
Decrease/increase in pension reserves	24	28
Decrease/increase in inventories	502	899
Decrease/increase in trade accounts receivable	7,373	4,145
Decrease/increase in other assets (current)	-1,281	377
Decrease/increase in trade accounts payable and advance payments received	-3,004	-5,357
Decrease/increase in other current liabilities and accruals	1,487	1,256
Cash flow from operating activities	-1,379	2,844
Cash flow from investing activities		
Investments in intangible assets and property, plant and equipment	-1,571	-1,761
Cash received from the disposal of intangible assets and property, plant and equipment	92	0
Investments in financial assets	0	0
Effects from acquisitions, investments and loans	-367	-913
Cash flow from investing activities	-1,846	-2,674
Cash flow from financing activities		
Liabilities to banks (current)	1,000	-1,884
Long-term deposits and short-term investments	582	190
Cash received from the increase in capital reserves	0	0
Change in minority interests (excluding profit shares)	-71	72
Issuance of convertible and warrant-linked bonds	-39	-186
Bank liabilities repaid/raised	-543	-494
Loans raised	0	0
Loans repaid	0	0
Cash flow from financing activities	929	-2,302
Foreign exchange rate differences	-269	0
Net change in cash and cash equivalents	-2,565	-2,132
Cash and cash equivalents at the beginning of the period	6,737	7,056
Cash and cash equivalents at the end of the period	4,172	4,924
Composition of cash and cash equivalents at the end of the fiscal year		
Banks balances and cash on hand	4,172	4,924

General Information

The consolidated interim financial statements for the period ended September 30, 2003 were prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP). The consolidated interim financial statements were not reviewed by the auditor and should be read in conjunction with the audited consolidated financial statements as of December 31, 2002 and the notes contained therein.

The consolidated interim financial statements account for all current transactions and cut-offs that management deems necessary to present the interim results accurately. Goodwill was tested for impairment in accordance with SFAS 142 in the third quarter. The impairment test resulted in an impairment loss of MEUR 1.467.

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

The Company has several branches and subsidiaries in Germany and foreign 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 September 30, 2003	
	Sales KEUR	EBIT KEUR
Americas	28,008	2,286
Germany	57,824	-5,715
Rest of Europe	29,274	-3,969
Other	1,990	-348
Consolidation	-5,510	37
Total	111,586	-7,709

	January 1 to September 30, 2002	
	Sales KEUR	EBIT KEUR
Americas	23,524	-594
Germany	70,700	2,009
Rest of Europe	38,286	-45
Other	2,823	-149
Consolidation	-7,176	16
Total	128,156	1,239

Depreciation and Amortization

Depreciation of property, plant and equipment and amortization of intangible assets came to a total of MEUR 2.3 (prior year: MEUR 3.2) 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.

