

itelligence

Interim Report 2/2003
January 1, 2003 to June 30, 2003

Key Figures in the First Half of 2003 at a Glance

- Low investment still affects the European market
- First signs of market recovery in the United States
- License sales rise, consulting revenues decline, stable Outsourcing & Services revenue
- Restructuring project approved in the first quarter of 2003 under implementation as scheduled
- EBITA of MEUR -5.3 including planned restructuring costs

Dear Shareholders,

The difficult market environment in the first half of 2003 continued to affect our consulting business in particular, with Europe especially hard hit. Our Outsourcing & Services business, on the other hand, maintained its performance. Outsourcing & Services contributed 18.9 percent to sales compared with 16.9 percent in the same period last year. License revenues are up 6.6 against the prior year.

The first half of 2003 was focused in particular on implementing the internal restructuring in order to achieve sustainable profitability in 2004. In the first stage of the restructuring project, we analyzed the efficiency of our entire organization and structures, moving swiftly to make any adjustments required. The second stage comprises the strategic and organizational realignment of the itelligence Group in response to the needs of our customers.

As a full-service provider for SAP, itelligence AG offers a total solution package for the entire lifecycle of an IT investment – from consulting, development, implementation and system integration to license business and hosting & services. Our clear focus on core industries and integrative growth areas makes itelligence the expert solution provider for the midmarket.

As one of the leading international IT service provider, we have further intensified strategic cooperation with SAP AG. We are one of the first system houses to be awarded the status of “Special Expertise Partners for mySAP Enterprise Portal” by SAP. We see this as further confirmation of our leadership in expertise and technology in the SAP field. itelligence has extensive project experience and is highly skilled in the implementation of complex mySAP Enterprise Portal projects.

itelligence AG is one of Germany's leading IT consulting and system integration companies. We improved our position in the Lünendonk list published in June 2003, moving up two places to rank 12th on the list for 2002. The Lünendonk lists have been published for the last 20 years and function as a market barometer for the entire IT and consulting market. This affirms itelligence AG's strategy of offe-

ring industry focus and full-service for the midmarket and a specialised solution package for international groups.

Business Development

In spite of itelligence good position on the market, the Company was not able to escape the noticeable reluctance to invest and the general economic situation. Total sales of MEUR 37.7 in the second quarter of 2003 were some 2 percent down on the prior period (MEUR 38.6). Total sales for the first half year came to MEUR 76.3, some 12 percent lower than the prior-year figure of MEUR 86.6. Net of exchange rate differences, the decrease in sales is 7.7 percent.

Consulting revenues are some 16 percent (MEUR 53.2) down on the same prior-year period (MEUR 63.2). The reason for this is the weak German economy as well as the effects of restructuring in western and southern Europe.

The Outsourcing & Services business recorded stable performance. At MEUR 14.4, the prior-year figure of MEUR 14.6 was almost achieved. Net of exchange rate differences, sales rose by 1.4 percent against the same period last year.

Our licensing business did well, generating sales of MEUR 8.1, an increase of some 6.6 percent on the prior year.

We continued our good performance in the United States and Switzerland in the first half year. In the United States especially, a 21 percent increase in sales (net of exchange rate differences: 43 percent) is proof that a turnaround has been achieved with new management and more efficient structures. Switzerland recorded sales growth of 7 percent.

Group-wide, itelligence AG has orders on hand with revenue effective in 2003 for some three months as of June 30, 2003. License sales are not included in orders on hand as these are directly recognized as revenues.

Earnings Situation

During the first six months, the average daily rates for consultants were slightly below the prior year's level. The percentage of fixed price projects has risen significantly against the prior-year period and now accounts for some 20 percent of consulting business. We responded to the poor utilization of capacity in western and southern Europe with sharp cuts in headcount in view of orders on hand and in the pipeline. In addition, cost and location structures were brought in line with the market environment.

The deterioration in capacity utilization in Germany also had to be countered by headcount adjustments in the short term. Parallel to the business-related capacity adjustments, further personnel cuts were made in administration as part of the restructuring project.

itelligence at a Glance: January 1 to June 30, 2003 and 2002

	Jan. 1 to June 30, 2003 in MEUR	Jan. 1 to June 30, 2002 in MEUR
Total sales	76.3	86.6
Consulting	53.2	63.2
Licenses	8.1	7.6
Outsourcing & Services	14.4	14.6
Other	0.6	1.2
Germany	38.7	47.2
Rest of Europe	18.9	24.0
Americas	18.7	15.4
EBIT*	-5.3	0.5
EBIT margin	-6,9%	0.6%
EBITA*	-5.3	0.5
EBITA margin	-6,9%	0.6%
EBITDA*	-3.8	2.7
EBITDA margin	-5.0%	3.1%
Net loss according to US GAAP	-6.8	-1.2
Earnings per share	-0.40	-0.07

*including restructuring costs of MEUR 2.7 in the first half of 2003

Taking the planned restructuring costs into account, the rigorous operating cost-cutting measures also made themselves felt. Sales and marketing expenses were reduced by 2.1 percent against the prior-year period. Net of the planned restructuring expenses, general and administrative expenses dropped 6 percent compared with the same period last year. General administration accounted for MEUR 1.9 of the MEUR 2.7 in restructuring costs incurred in the first half year.

Due to low capacity utilization, the gross margin, net of MEUR 0.8 in restructuring costs, dropped from 26.1 percent in the prior-year period to 23.6 percent in the first half of 2003.

EBIT dropped to MEUR -5.3 due to the lull in the consulting business and the additional restructuring costs of MEUR 0.5 in the first half of 2003. Net of restructuring costs, EBIT for the second quarter is at the same level as the previous quarter. Net loss (according to US GAAP) for the first half of 2003 is MEUR -6.8 (MEUR -1.2 in the prior-year period). Earnings per share are EUR -0.40 vs. EUR -0.07 in the first half of 2002.

Cash flow saw a slight improvement in the first six months of 2003, reaching MEUR -2.5 as of June 30, 2003 against MEUR -2.6 as of June 30, 2002. Cash flow from operating activities of MEUR -2.8 as of June 30, 2003 includes the restructuring costs. Net of these costs, itelligence's operating cash flow is almost balanced.

Continuation of Our Action Plan 2003 – Sustainable Profitability and Structural Optimization

In our last interim report, we informed you about our comprehensive measures to improve the Company's structures and to increase profitability. In the second quarter 2003, we pressed ahead with the measures introduced in the first quarter and made further adjustments to the cost structures in light of the still difficult market situation. Most of the measures were completed by the end of the first half year and had started to show results.

Capacity adjustments – in view of efficiency, the current economic situation and anticipated development of business in different countries and industries, extensive staff cuts were made in the second quarter in order to achieve sustainable profitability. 293 employees have been laid off across the entire Group so far in 2003, some 80 percent in operations and another 20 percent in central functions (administration and marketing). Foreign companies have been affected most by personnel cuts, accounting for 63 percent. The anticipated annual cost savings of MEUR 14.8 will start to become noticeable in the third and fourth quarters and will take their full effect in 2004.

Operating costs – further drastic cuts in operating costs will be made in addition to headcount adjustments. We expect annual costs to decrease by some MEUR 2 by making savings in travel expenses, company cars, IT, marketing etc. These cuts will start to become noticeable in the third and fourth quarters and will also take their full effect in 2004.

Improved financial control – we set up a more efficient cross-border financial control system in the first quarter of 2003. In the second quarter, we used the control instruments in place to manage operations on a tight rein and take corrective action without delay. Our early warning systems focus on strict monitoring of the development of orders on hand and in the pipeline and continuous matching of orders against available capacity.

Strategic realignment and organizational optimization – the priority of the restructuring project in the third quarter will be strategic realignment and organizational optimization of our divisions. The objective of optimization is a clear focus on industries and service lines in each region. The Group's organizational units will be redefined. Its organizational structures and internal processes will be continuously optimized in order to achieve an even leaner and more efficient management of the Group.

Strengthening the equity base and liquidity – a sustained improvement is another key requirement. To further boost liquidity, we have centralized cash management to a large extent to enable more efficient management of incoming and outgoing payments, especially those of our foreign subsidiaries. In addition, by optimizing accounts receivable management, we have reduced our days sales outstanding (DSO) to 72 days, down some 10 days on the prior-year period. As announced at the general meeting of shareholders, talks are currently being held with investors to strengthen our equity base.

Risk Report

In the annual report 2002 (pages 37 to 39), we reported in detail on the Company's risk situation. Reference is made to the risks to future development set out on those pages of the report. In 2003, our syndicate banks provided an additional credit line of MEUR 2.0 for restructuring until the end of October 2003. According to the current budget, the credit lines will have to be extended beyond October, as expected. This has been discussed with the banks. Parallel to much improved liquidity management, further rigorous action to improve the equity base and liquidity is being taken.

Capital Expenditure

itelligence invested a total of MEUR 1.2 during the first half year compared to MEUR 2.1 in the prior-year period. Capital expenditure focused on Outsourcing & Services and the usual replacements.

Employees

726 of the 1,303 staff as of June 30, 2003 were employed in Germany (June 30, 2002: 767) and 577 abroad (June

30, 2002: 702). In the second quarter, headcount was reduced as scheduled by 166 employees against the prior-year period and by 79 employees against the first quarter of 2003. The restructuring also resulted in changes to the Management Board. Burkhard Berner left the Company as of April 30, 2003. He was responsible for international affairs at itelligence AG. Prof. Dr. Hermann Hueber, CFO of itelligence AG, retired from the Company at his request for personal reasons as of May 23, 2003. Jörg Vandreiier took over his responsibilities on June 16, 2003. The Management Board, consisting of Herbert Vogel and Jörg Vandreiier, will drive forward further optimization of the financial control and early warning systems and step up strategic realignment.

Investor Relations

The second quarter was a time of intensive communication with our shareholders and investors as well as analysts and the business press. Together with the Supervisory Board, we reported to itelligence's shareholders on fiscal year 2002 and the restructuring and cost-cutting measures adopted in the first quarter of 2003 at the general meeting of shareholders held in Frankfurt on May 23, 2003. The Supervisory Board was reshuffled at the general meeting of shareholders. Prof. Dr.-Ing. Peter-Jürgen Kreher and Dr. Lutz Mellinger were elected as the successors of Dr. Markus Wenserski and Dr. Andreas Leimbach. Prof. Dr.-Ing. Peter-Jürgen Kreher was appointed as chairman of the Supervisory Board.

At the Financial Forum analyst conference in Frankfurt in April, we presented our corporate strategy to analysts and journalists. We will report on developments during the past quarter at the Financial Forum again in August 2003 in an effort to maintain constant communication with the financial community.

Events After the Semi-Annual Financial Statements – Realignment on the Italian Market

In the first interim report in 2003, we talked about the exact analysis and corresponding restructuring of individual foreign subsidiaries which were dragging down itelligence's overall results. In this context, we sold our entire Italian subsidiary itelligence S.r.L. to Pericle Tangerine S.p.A. on July 24, 2003. The share sale included an asset deal in which the northern Italian activities of the former itelligence subsidiary were transferred to a new company, itelligence Italia S.r.L. This new company will remain part of itelligence AG's group of companies and will focus on the successful core industries in northern Italy, the timber/furniture industry and the high tech sector.

Outlook

We expect the IT market to stabilize during the remainder of the year 2003 and should see an improvement in the economy during the first half of 2004.

The other measures announced as part of the restructuring project will be implemented in the third quarter. At the same time, we will keep close track of developments in orders on hand, order intake and orders in the pipeline in order to take corrective action in plenty of time. The measures already in place will start to take effect from the third and fourth quarters. The restructuring measures introduced in the first half year, combined with our increased efforts to improve the equity base and liquidity situation, are paving the way for a significantly improved position in the market with sustainable profitability in 2004.

Departing from the capacity-based planning of the past few years, we are now taking an entirely market-driven approach to planning so that we can operate profitably even in a market environment that remains difficult. As SAP AG's focus on the midmarket grows, we see ourselves very well positioned to operate successfully in this market as one of SAP AG's leading partners in this field. We consider the successful turnaround of our US subsidiary as proof of the success of our restructuring.

Today, taking consistent business development and the sale of part of our Italian operations into account, the Management Board expects sales of between MEUR 140 and MEUR 145 with an EBITA margin of between -4 and -6 percent.



Herbert Vogel
CEO



Jörg Vandreier
CFO

Shareholders

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

Wolfgang Schmidt	16.2 percent
Vogel family	15.9 percent
Petra Berner	8.9 percent
Frank family	7.6 percent
Christel Lamb	6 percent
Free float	45.4 percent

Directors' Holdings

Members of the Management Board and Supervisory Board held the following numbers of itelligence shares as of June 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

* Burkhard Berner, who retired from the Management Board as of April 30, 2003, held 721,223 shares in itelligence as of March 31, 2003; Prof. Dr. Hermann Hueber, who retired from the Management Board as of May 23, 2003, held 22,881 shares in itelligence as of March 31, 2003

** Member of the Management Board as of June 16, 2003

*** Dr. Markus Wenserski, who retired from the Supervisory Board as of May 23, 2003, did not hold any shares in itelligence as of March 31, 2003; Dr. Andreas Leimbach, who retired from the Supervisory Board as of May 23, 2003, did not hold any shares in itelligence as of March 31, 2003

The members of the Management Board in 2003 did not hold convertible bonds of itelligence AG as of June 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

August 26, 2003	Investor conference Financial Forum, Frankfurt
November 6, 2003	Publication of the nine month report
November 26/27, 2003	Investor conference Financial Forum, Frankfurt

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

	June 30, 2003 KEUR	June 30, 2002 KEUR	Dec. 31, 2002 KEUR
Assets			
Current assets			
Cash and cash equivalents	4,273	4,434	6,737
Short term investments	150	0	250
Trade accounts receivable, net	30,543	39,147	35,238
Inventories	1,389	1,780	1,956
Prepaid expenses	3,120	2,997	776
Other current assets	2,028	3,992	2,083
Deferred taxes	326	0	316
Total current assets	41,829	52,350	47,356
Non-current assets			
Deferred taxes	275	4,967	293
Computer software	454	695	576
Goodwill	15,079	17,222	15,465
Property, plant and equipment, net	9,103	10,323	10,171
Financial assets	635	405	635
Restricted Cash	1,605	4,613	2,205
Total non-current assets	27,151	38,225	29,345
Total assets	68,980	90,575	76,701

	June 30, 2003 KEUR	June 30, 2002 KEUR	Dec. 31, 2002 KEUR
Liability and Shareholders' Equity			
Current liabilities			
Current liabilities due to banks	9,954	8,632	8,988
Short-term portion of long term debt	1,982	2,818	3,214
Trade accounts payable	11,474	13,891	9,496
Liabilities due to associated companies	44	72	31
Advance payments received	173	93	3,180
Other accruals	9,208	8,110	9,229
Other current liabilities	8,513	10,316	10,410
Deferred taxes	1,030	72	1,164
Tax accruals	982	635	325
Deferred income	3,906	3,666	1,826
Total current liabilities	47,266	48,305	47,863
Non-current liabilities			
Pension reserves	192	243	180
Bonds	542	593	557
Other non-current liabilities	8,590	10,151	7,678
Deferred taxes	0	0	0
Total non-current liabilities	9,324	10,987	8,415
Total liabilities	56,590	59,292	56,278
Contingent liabilities	0	0	0
Minority interests	457	351	710
Shareholders' equity			
Common stock (16,771,202)	16,771	16,771	16,771
Capital reserves	19,768	19,768	19,768
Accumulated deficit	-23,081	-1,337	-16,293
Accumulated other comprehensive loss	-1,525	-4,270	-533
Total shareholders' equity	11,933	30,932	19,713
Total liabilities and shareholders' equity	68,980	90,575	76,701

Consolidated Statements of Income for the Period January 1 to June 30, 2003 and 2002 (US GAAP)

(all figures in KEUR except for the number of shares and earnings per share)	Jan. 1, to June 30, 2003 KEUR	Jan. 1, to June 30, 2002 KEUR	Apr. 1, to June 30, 2003 KEUR	Apr. 1, to June 30, 2002 KEUR
Sales	76,258	86,596	37,678	43,015
Cost of sales	-59,039	-64,009	-30,427	-31,833
Gross profit	17,219	22,587	7,251	11,182
Operating expenses				
Marketing and selling expenses	-7,159	-7,315	-3,287	-3,539
General and administrative expenses	-14,659	-13,571	-7,502	-6,803
Research and development expenses	-583	-656	-223	-185
Amortization of goodwill and intangible assets	0	0	0	0
Other operating income/expenses, net	-156	-560	-15	-202
Total operating expenses	-22,557	-22,102	-11,027	-10,729
Operating loss (EBIT)	-5,338	485	-3,776	453
Other income/expenses				
Income from investments	0	33	-1	25
Exchange differences	-318	-398	-68	-398
Interest income/expenses, net	-609	-869	-290	-507
Other income/expenses	-927	-1,234	-359	-880
Loss before income taxes, minority interests and cumulative effect of change in accounting principle	-6,265	-749	-4,135	-427
Income taxes	-705	-421	-489	-233
Net loss before minority interests and cumulative effect of change in accounting principle	-6,970	-1,170	-4,624	-660
Minority interests	182	-9	139	-92
Effect from change in accounting principle, net of tax	0	0	0	0
Net loss	-6,788	-1,179	-4,485	-752
Loss per share in EUR – basic	-0.40	-0.07		
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	17,321,086	17,442,896		

Consolidated Statements of Changes in Shareholders' Equity as of June 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				-1,179		-1,179	-1,179
Capital increase							
Foreign currency translation adjustments					-1,128	-1,128	-1,128
Unrealized loss on investments					-88	-88	-88
Comprehensive loss							-2,395
June 30, 2002	16,771,202	16,771	19,768	-1,337	-4,270	30,932	
December 31, 2002	16,771,202	16,771	19,768	-16,293	-533	19,713	
Net loss for the period				-6,788		-6,788	-6,788
Impairment of long-term investments							
Foreign currency translation adjustments					-992	-992	-992
Comprehensive loss							-7,780
June 30, 2003	16,771,202	16,771	19,768	-23,081	-1,525	11,933	

Consolidated Statements of Cash Flow for the Period January 1 to June 30, 2003 and 2002 (US GAAP)

	June 30, 2003 KEUR	June 30, 2002 KEUR
Cash flow from operating activities		
Net loss for the period	-6,778	-1,179
Adjustments to net loss for the period		
Minority interests	-182	9
Depreciation and amortization	1,527	2,166
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	-126	47
Decrease/increase in pension reserves	12	19
Decrease/increase in inventories	567	660
Decrease/increase in trade accounts receivable	4,695	3,512
Decrease/increase in other assets (current)	-2,289	-1,631
Decrease/increase in trade accounts payable and advance payments received	-1,016	-3,115
Decrease/increase in other current liabilities and accruals	819	2,063
Cash flow from operating activities	-2,775	2,551
Cash flow from investing activities		
Investments in intangible assets and property, plant and equipment	-883	-1,334
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	-733
Cash flow from investing activities	-1,158	-2,067
Cash flow from financing activities		
Liabilities to banks (current)	966	-3,096
Long-term deposits	700	500
Cash received from the increase in capital reserves	0	0
Change in minority interests (excluding profit shares)	-71	0
Issuance of convertible and warrant-linked bonds	-15	-167
Bank liabilities repaid/raised	-320	-343
Loans raised	0	0
Loans repaid	0	0
Cash flow from financing activities	1,260	-3,106
Foreign exchange rate differences	209	0
Net change in cash and cash equivalents	-2,464	-2,622
Cash and cash equivalents at the beginning of the period	6,737	7,056
Cash and cash equivalents at the end of the period	4,273	4,434
Composition of cash and cash equivalents at the end of the fiscal year		
Banks balances and cash on hand	4,273	4,434

General Information

The consolidated interim financial statements for the period ended June 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 will be tested for impairment in accordance with SFAS 142 in the third quarter 2003 (impairment test).

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 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 June 30, 2003	
	Sales KEUR	EBIT KEUR
Americas	18,726	1,409
Germany	39,176	-4,285
Rest of Europe	20,539	-2,223
Other	1,491	-199
Consolidation	-3,674	-40
Total	76,258	-5,338

	January 1 to June 30, 2002	
	Sales KEUR	EBIT KEUR
Americas	15,508	-855
Germany	47,254	2,200
Rest of Europe	26,203	-468
Other	1,582	-257
Consolidation	-3,951	-105
Total	86,596	485

Depreciation and Amortization

Depreciation of property, plant and equipment and amortization of intangible assets came to a total of MEUR 1.5 (prior year: MEUR 2.2) 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.

