



Interim Report 1/2004

itelligence

Key Factors in the First Quarter of 2004 at a Glance

- Development of revenues and earnings confirm expectations for 2004
- Further improvement in EBIT (MEUR 1.2) and the EBIT margin (3.7 percent)
- SAP license revenues up 10 against the prior-year quarter
- Strong Outsourcing & Services business with a 25 percent increase year-on-year
- Successful placement of 3.8 million shares for the capital increase

Dear Shareholders,

The positive trend in the market environment which emerged in the fourth quarter continued in the first quarter of 2004. The increased number and volume of new projects in our pipeline clearly demonstrate that the willingness to invest is picking up in our markets. However, these projects continue to be ordered very cautiously by companies focusing on ROI and optimizing processes.

We have realigned ourselves as part of the restructuring and strategic refocusing successfully completed in 2003 and now have a more efficient structure and a more customer-oriented service offering. itelligence AG is clearly positioned as a full-service provider for IT solutions in the field of SAP for the traditional and high-end midmarket. We offer our customers an optimized portfolio of solutions ranging from process consulting, licenses and IT implementation to hosting and maintenance. Based on our strategy of creating a competitive edge for our clients by boosting their efficiency and enhancing their customers' loyalty, our consultants contribute their profound industry-specific process expertise and their implementation know-how in integrating IT solutions at system level.

Thanks to our excellent positioning and our extensive knowledge of the SAP market for midmarket companies, we are one of SAP AG's most important partners in this customer segment on a global level. In the scope of our close strategic cooperation, we were accepted into the new SAP NetWeaver Initiative in February as one of the first IT partner consultancies worldwide. The first implementation projects with NetWeaver components have already been successfully completed at BAUER AG, Schrobenshausen, Testo AG, Lenzkirch, and Swiss Post in Bern.

In Germany, the high standard of quality and the expertise of itelligence AG has been recognized through further awards from SAP AG. In the German SAP Business Partner Awards 2004, for example, itelligence came first in the category "New Customer Acquisition – mySAP All-in-One". We also made third place in the category "Strongest Sales Partner – mySAP All-in-One".

As a full-service provider for IT, we also presented our extensive consulting competencies in the midmarket at this year's CeBIT. We met with very positive response and recorded some 15 percent more promising contacts at our stand than in the prior year.

Business Development in the First Quarter

In the first three months of 2004, itelligence generated total revenues of MEUR 32.8. Hence, net of the sold and closed operations, revenues were at the prior-year level (MEUR 33.0).*

Outsourcing & Services generated an above-average increase in revenues of a nominal 25 percent. Net of exchange rate effects, revenues would have increased some 30 percent. Customer demand for hosting services in the midmarket picked up in the course of fiscal year 2003. The increase in licensing revenues in the fourth quarter of 2003 also led to further maintenance agreements being concluded, which in turn had a positive effect on this segment's development. The outsourcing and services business is a clear growth market for us, going from strength to strength, with a favorable cost structure for our Company. In our state-of-the-art computer centers in Europe and the United States, we offer our customers an extensive IT outsourcing and services package. An increasing number of our customers who we have assisted in configuring IT landscapes and optimizing business processes go on to use our experience in outsourcing and services.

We are very pleased with the performance of our SAP licensing business. Nominally, the revenue volume of the licensing business matches that of the prior year. Net of exchange rate effects, revenues would have increased some 8 percent. The core area of SAP licenses grew by a nominal 10 percent to some MEUR 3.3 (prior year: MEUR 3.0), and by a good 20 percent net of exchange rate effects.

Consulting, our largest division, experienced a drop in revenues of some 21 percent year-on-year. Net of exchange rate effects, revenues would have decreased some 18 percent. In the same period, our consulting team decreased by

	Jan. 1. to Mar. 31, 2004 in MEUR	Jan. 1. to Mar. 31, 2003** in MEUR
Total revenues	32.8	36.9
Consulting	20.5	26.0
Licenses	3.6	3.6
Outsourcing & Services	8.6	6.9
Other	0.1	0.4
Germany	17.0	19.1
Rest of Europe	8.5	9.3
Americas	7.3	8.5
EBIT	1.2	-0.5
EBIT margin	3.7%	-1.4%
Discontinued operations	0.0	-1.0
EBITA	1.2	-0.5
EBITA margin	3.7%	-1.4%
EBITDA	2.0	0.3
EBITDA margin	6.1%	0.8%
Net income/loss according to US-GAAP	0.2	-2.3
Earnings per share	0.01	-0.14

**Net of discontinued operations

itelligence at a Glance: January 1, 2004 to March 31, 2004

approx. 25 percent. Net of exchange rate effects and the sold or closed operations, revenues in this segment were down approx. 5 percent on the prior-year quarter.*

Based on the net revenues of the prior quarter*, the German region maintained the level of the prior year, generating revenues of MEUR 17.0. At MEUR 8.5, the rest of Europe fell some 2.2 percent short of the prior-year figure. In the United States, revenues grew some 3.5 percent net of exchange rate effects.

Group-wide, itelligence AG had orders on hand worth some MEUR 85 as of March 31, 2004, up 13 percent on December 31, 2003.

Earnings Situation

The average daily rates for consultants remained at the level of the fourth quarter of 2003. In comparison to the first quarter of 2003, the average daily rates fell by some 2 percent. The percentage of fixed price projects has fallen against the prior-year period, accounting for some 15 percent of consulting business.

In the first quarter of 2004, we were able to follow on from the positive trend of the two previous quarters with

regard to costs. The restructuring successfully concluded at the end of 2003 unleashed extensive cost-cutting potential which only fully impacted results from the beginning of fiscal year 2004. Selling and marketing expenses were cut to some MEUR 2.8 in the first quarter from approx. MEUR 3.6 in the prior-year period. This led to a drop in the ratio of these expenses to revenues from around 10 percent to around 8 percent in the first quarter of 2004. At MEUR 0.1, research and development expenses were also well below the prior year's level of MEUR 0.4. Promising technologies and services such as the refinement of individual industry solutions are developed in close cooperation with customers and in projects based at the customer's company and hence are no longer disclosed separately as research and development expenses. General and administrative expenses were reduced by 22 percent to MEUR 5.4. The more efficient structures and work flows established during the restructuring bore fruit in this regard.

Due to improved capacity utilization in consulting and in hosting infrastructure (Outsourcing), the gross profit margin rose from 27.7 percent in the prior-year period to 28.7 percent in the first three months of 2004.

EBIT in the first quarter of 2004 came to MEUR 1.2, an improvement on MEUR -0.5 in the same period of the

* For the sake of comparison, the previous year's sales have been adjusted for discontinued operations (companies sold, see page 11) and companies/operations that have been closed.

prior year. This corresponds to an EBIT margin of 3.7 percent compared with -1.4 percent in the prior-year period. EBIT was increased by 20 percent in absolute terms from 2.6 percent in the fourth quarter of 2003.

Net income according to US GAAP is now positive at MEUR 0.2 following MEUR -2.3 in the prior-year quarter. The result of the first three months of 2004 was reduced by interest expenses of MEUR 0.4 (prior year: MEUR 0.3) and income taxes of MEUR 0.6 (prior year: MEUR 0.3). We are expecting a positive effect on the Group's unfavorable tax rate in the second quarter of 2004 following the anticipated approval at the general shareholders' meeting of the domination and profit and loss transfer agreement with itelligence Outsourcing & Services GmbH and itelligence Services GmbH (formerly APCON Nielsen Consulting GmbH).

Balance Sheet Figures, Investments and Liquidity

Cash flow from operating activities amounts to MEUR -1.7 as of March 31, 2004 compared to MEUR 1.5 in the prior year. This is chiefly attributable to outflows in connection with the restructuring effects already taken into account in the balance sheet in 2003. Net of these effects, cash flow would have been positive at MEUR 0.5. Cash flow from investing activities was positively influenced by the sale of the Heiler block of shares. Capital expenditure increased by some 40 percent to MEUR 0.6 (prior year: MEUR 0.4) which is largely due to the higher volume of orders on hand in Outsourcing & Services. With regard to financing, short-term bank liabilities were reduced by around MEUR 2.0. Overall, the net reduction in cash and cash equivalents came to MEUR 4.1.

Trade accounts receivable were reduced by approx. 28 percent year-on-year through ongoing strict accounts receivable management. The ratio of days sales outstanding (DSO) was kept at 55 days as in the fourth quarter of 2003. This is an improvement of 17 days in comparison to the prior-year quarter.

In the first three months of 2004, we worked hard at strengthening our capital structure and liquidity situation. In March 2004, we carried out a second capital increase with subscription rights for 3,839,214 shares which were placed successfully. The capital increase was entered in the commercial register at the local court in Frankfurt am Main on April 16, 2004 and was therefore not included in the financial statements for the first quarter of 2004. Institutional investors demonstrated a keen interest and confidence in our Company, with COMINVEST Asset Manage-

ment GmbH, Julius Baer Multistock, DWS Investment GmbH and Nobel SA investing in itelligence AG as new shareholders. With the capital increase, our Company's capital stock increased to 22,287,535 shares. The gross inflow of funds of MEUR 6.9 significantly bolstered our Group's funding situation.

Employees

As of March 31, 2004, itelligence AG employed 954 people (March 31, 2003: 1,382). In comparison to the prior-year period, the number of employees fell by approx. 31 percent, or 428 employees, mainly as a result of the capacity adjustments and structural realignment of the itelligence Group in 2003. From a group perspective, the number of employees was 501 (prior-year quarter: 738) in Germany and 453 abroad (prior-year quarter: 644).

Risk Report

In the annual report 2003 (pages 32 to 35) we reported in detail on the Company's risk situation. Our equity basis and the liquidity situation were improved considerably through the successful placement of shares for the second capital increase. Through organizational and process-related measures we will continue to work on identifying risks at an early stage and drawing up measures to improve our risk position.

Investor Relations

The first quarter of 2004 was a time of intensive communication with our shareholders and investors as well as analysts and the business press. At this year's results press conference in Düsseldorf, we presented our business strategy to representatives from the media and discussed the measures we took in 2003 to achieve sustainable profitability and improve our Company's liquidity. As part of our ongoing communication with the financial community, we will also present our Company and business development at insight discussions and conferences in the coming months, as well as at the forthcoming general shareholders' meeting on May 27, 2004 in Bielefeld.

Outlook

Overall, we believe that our Company is very well prepared for 2004 and the emerging market trends. Clear growth are for us in 2004 the midmarket and outsourcing and services

demand. We will focus on organic growth and maintaining and expanding on the earnings potential generated through restructuring.

The first quarter, traditionally the weakest quarter in the consulting business, was slightly better than expected. In view of the positive start to the new fiscal year and the good level of orders on hand, we are confident that we will be able to meet our targets for the year as a whole if the market continues to develop steadily. We expect to generate revenues of between MEUR 125 and MEUR 135 and an EBIT margin of between 4 and 7 percent.



Herbert Vogel
CEO



Jörg Vandreier
CFO

Shareholder Structure

Changes to the Shareholder Structure
in the First Quarter of 2004

itelligence AG completed a successful capital increase with subscription rights for 3,839,214 new shares on March 31, 2004. The placement of the 3,839,214 shares increased the Company's capital stock to 22,287,535 shares. The capital increase led to a gross inflow of some MEUR 6.9. The new shares are fully entitled to dividend payments for fiscal year 2003. The capital increase was entered in the commercial register at the Frankfurt am Main local court on April 16, 2004.

As of April 30, 2004, itelligence AG's shares were held by*:

Vogel family	11.9 percent
Wolfgang Schmidt	5.6 percent
Julius Baer Multistock	8.3 percent
Nobel SA, Paris	6.1 percent
Free float	68.1 percent

* Shareholder structure following entry of the capital increase in the commercial register on April 16, 2004.

Directors' Holdings

Members of the Management Board and Supervisory Board held the following numbers of itelligence shares as of March 31, 2004:

Management Board	
Herbert Vogel	1,907,286
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
Prof. Dr. Karl Peter Grottemeyer**	0
Dr. Lutz Mellinger	0
Anke Ruff (employee representative)	0
Wolfgang Schmidt	1,240,311

* Member of the Supervisory Board until March 31, 2004

** Member of the Supervisory Board since April 1, 2004

The members of the Management Board did not hold convertible bonds of itelligence AG as of March 31, 2004. Only the employee representatives on the Supervisory Board hold convertible bonds of itelligence AG: Anke Ruff holds 4,530 and Johannes Cordes holds 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 on the mailing list for news and press releases under Investor Relations/Dialog. You will then receive the latest news by e-mail.

Important Dates in 2004

May 27, 2004	General Shareholders' Meeting 2004, Bielefeld
August 5, 2004	Publication of the six month report for 2004
November 9, 2004	Publication of the nine month report for 2004

Consolidated Balance Sheets as of Mar. 31, 2004 and 2003 (US-GAAP)

Assets	Mar. 31, 2004 KEUR	Mar. 31, 2003 KEUR	Dec. 31, 2003 KEUR
Current assets			
Cash and cash equivalents	3,388	4,498	7,526
Trade accounts receivable, net	20,140	28,089	22,294
Inventories	391	1,553	350
Other current assets	3,764	2,349	3,181
Deferred taxes	147	267	144
Prepaid expenses	3,793	4,295	830
Assets of businesses held for sale	0	4,817	1,675
Total current assets	31,623	45,868	36,000
Non-current assets			
Deferred taxes	111	243	137
Computer software, net	946	484	967
Goodwill	13,246	15,477	12,867
Property, plant and equipment, net	8,967	9,307	9,161
Financial assets	65	635	606
Restricted cash	1,861	2,205	1,861
Total non-current assets	25,196	28,351	25,599
Total Assets	56,819	74,219	61,599

Liabilities and Shareholders' Equity

	Mar. 31, 2004 KEUR	Mar. 31, 2003 KEUR	Dec. 31, 2003 KEUR
Current liabilities			
Current liabilities due to banks	3,590	6,980	5,580
Current portion of long-term debt	2,999	2,452	2,481
Trade accounts payable	9,037	12,099	8,611
Liabilities due to associated companies	48	42	40
Advance payments received	56	193	3,198
Other accruals	9,949	7,568	10,470
Tax accruals	1,124	354	697
Other current liabilities	4,717	5,580	7,308
Deferred taxes	116	1,067	180
Deferred income	5,463	5,469	1,294
Liabilities of businesses held for sale	0	5,696	2,008
Total current liabilities	37,099	47,500	41,867
Non-current liabilities			
Pension liabilities	189	189	177
Convertible bonds to employees	509	552	509
Long-term debt, net of current portion	7,319	8,287	7,907
Deferred taxes	211	0	206
Total non-current liabilities	8,228	9,028	8,799
Total liabilities	45,327	56,528	50,666
Contingent liabilities			
Minority interests from businesses held for sale	0	251	0
Minority interests	326	416	331
Shareholders' equity			
Common stock	18,448	16,771	18,448
Additional paid-in capital	20,549	19,768	20,549
Accumulated deficit	-25,932	-18,596	-26,127
Accumulated other comprehensive loss	-1,899	-919	-2,268
Total shareholders' equity	11,166	17,024	10,602
Total Liabilities and Shareholders' Equity	56,819	74,219	61,599

(all figures in KEUR except for the number of shares and earnings per share)	Jan. 1 to Mar. 31, 2004 KEUR	Jan. 1 to Mar. 31, 2003 KEUR
Revenues	32,750	36,920
Cost of revenues	-23,362	-26,702
Gross profit	9,388	10,218
Operating expenses		
Marketing and selling expenses	-2,783	-3,644
Administrative expenses	-5,352	-6,838
Research and development expenses	-83	-360
Impairment of goodwill	0	0
Other operating income/expenses, net	42	97
Total operating expenses	-8,176	-10,745
Operating loss	1,212	-527
Other income/expenses		
Income from investments	3	1
Loss from foreign currency exchange, net	-20	-250
Profit from the disposal of financial assets	9	0
Interest income/expenses, net	-436	-322
Other income/expenses	-444	-571
Loss from continuing operations before income taxes and minority interests	768	-1,098
Income taxes	-565	-290
Loss from continuing operations before minority interests	203	-1,388
Minority interests	-8	-30
Loss from continuing operations	195	-1,418
Discontinued operations		
Loss from discontinued operations	0	-1,032
Income taxes	0	74
Minority interests	0	73
Loss from discontinued operations	0	-885
Net loss/Net profit	195	-2,303
Earnings per share in EUR – basic and diluted		
Loss from continuing operations before minority interest	0.01	-0.08
Loss from discontinued operations	0.00	-0.06
Net loss/Net profit	0.01	-0.14
Number of shares used in the calculation of earnings per share: – basic and diluted	18,448,321	16,771,202

	Number of shares issued and outstanding	Common Stock KEUR	Additional paid in capital KEUR	Accumulated deficit KEUR	Accumulated other compre- hensive loss KEUR	Total share- holders' equity KEUR	Compre- hensive loss KEUR
December 31, 2002	16,771,202	16,771	19,768	-16,293	-533	19,713	
Net loss				-2,303		-2,303	-2,303
Capital increase						0	
Foreign currency translation adjustments					-386	-386	-386
Unrealized loss on investments						0	0
Comprehensive loss							-2,689
March 31, 2003	16,771,202	16,771	19,768	-18,596	-919	17,024	
December 31, 2003	18,448,321	18,448	20,549	-26,127	-2,268	10,602	
Net loss				195		195	195
Capital increase						0	
Foreign currency translation adjustments					329	329	329
Impairment of long-term investments					40	40	40
Comprehensive loss							564
March 31, 2004	18,448,321	18,448	20,549	-25,932	-1,899	11,166	

	Mar. 31, 2004 KEUR	Mar. 31, 2003 KEUR
Cash flows provided by operating activities		
Net loss for the period/Net profit for the period	195	-2,303
Adjustments to reconcile net loss to net cash provided by operating activities		
Discontinued operations, net	0	885
Depreciation of property, plant, equipment and computer software	816	751
Impairment of goodwill	0	0
Gains from the disposal of financial assets	-9	0
Gains from the disposal of non-current assets	22	-4
Changes in operating assets and liabilities	0	0
Decrease/increase in trade accounts receivable	2,154	3,746
Decrease/increase in inventories	-41	403
Prepaid expenses and other current assets	-3,549	-4,094
Decrease/increase in trade accounts payable, associated companies and advance payments received	434	3,817
Decrease/increase in pension liabilities	12	9
Decrease/increase in other current liabilities and accruals	-1,658	-1,900
Decrease/increase in deferred taxes	-36	126
Decrease/increase in minority interest	8	30
Cash flows provided by operating activities	-1,652	1,466
Cash flows used in investing activities		
Proceeds from sale of discontinued operations net of cash provided	0	0
Cash used in discontinued operations	-333	-353
Investments in property, plant, equipment and computer software	-556	-395
Cash received from the disposal of property, plant and equipment and computer software	5	42
Cash received from the disposal of financial assets	593	0
Additional purchase price payments for investments carried out	-215	-363
Cash flows used in investing activities	-506	-1,069
Cash flows used in financing activities		
Cash received from issuance of stock, net	0	0
Dividends to minority interests	0	0
Repayment of convertible bonds to employees	0	-5
Repayment of restricted cash	0	0
Repayment of current liabilities to banks	-1,990	-1,987
Proceeds of loans from bank	0	0
Repayment of credit loans to banks	-153	-173
Proceeds of issuance of long-term debt	142	0
Repayments of long-term debt	-59	0
Cash flows used in financing activities	-2,060	-2,165
Effect of exchange rate changes on cash and cash equivalents	80	287
Increase/decrease in cash and cash equivalents	-4,138	-1,481
Cash and cash equivalents at the beginning of the period	7,526	5,979
Cash and cash equivalents at the end of the period	3,388	4,498
Supplemental cash flow information		
Cash and cash equivalents	3,388	4,498

General Information

The consolidated interim financial statements for the period ended March 31, 2004 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, 2003 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. The Company believes that the information and comments presented give a true and fair view of the net assets, financial position and results of operations of the Company.

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.

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

Recent Accounting Pronouncements

Please refer to pages 44 and 45 in the annual report 2003.

Discontinued Operations

In fiscal year 2003, the management board decided to focus on core divisions by selling companies and pulling out from the Italian market entirely. Applying SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", assets and liabilities, and the operating results of the following companies which have been sold are disclosed as discontinued operations in the consolidated financial statements:

- itelligence S.r.l., Italy
- it-WPS Workplace Solutions GmbH
- itelligence Financial Solutions GmbH
- itelligence Italia S.r.l.
- HONICO SYSTEMS GmbH

All of the companies for sale had been sold as of quarterly reporting 1/2004.

The following tables contain additional information relating to the income statement with regard to the divisions classified as discontinued operations in the period under review from January 1 to March 31, 2004:

Revenues	Jan. 1 to Mar. 31, 2003
	KEUR
itelligence S.r.l., Italy	517
itelligence Italia S.r.l., Italy	0
it-WPS Workplace Solutions GmbH	494
itelligence Financial Solutions GmbH	441
HONICO SYSTEMS GmbH	208
Total revenues	1,660

Income Statement	Jan. 1 to Mar. 31, 2003
	KEUR
Revenues	1,660
Cost of revenues	-1,910
Gross profit	-250
Total operating expenses	-785
Operating revenues	-1,035
Other income/expenses	3
Loss before income taxes	-1,032
Income taxes	74
Effect from minority interests	73
Net loss from discontinued operations	-885

The table below contains the main asset items from discontinued operations:

March 31, 2003	itelligence S.r.l., Italy	it-WPS	itelligence Financial Solutions	HONICO	Total
	KEUR	KEUR	KEUR	KEUR	KEUR
Cash and cash equivalents	258	232	365	74	929
Trade receivables	2,493	145	168	122	2,928
Other assets	327	255	24	114	720
Software and property plant and equipment	122	29	23	66	240
Total assets	3,200	661	580	376	4,817

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 No. 131.

January 1 to March 31, 2004	Revenues	EBIT
	KEUR	KEUR
Americas	7,344	25
Germany	17,730	828
Rest of Europe	8,868	428
Other	14	-45
Consolidation	-1,206	-24
Total	32,750	1,212

1. Januar–31. März 2003	Revenues	EBIT
	KEUR	KEUR
Americas	8,512	385
Germany	19,347	-257
Rest of Europe	9,770	-454
Other	780	-55
Consolidation	-1,489	-146
Total	36,920	-527

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 0.8) 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.

