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Quarterly report

Q1 2003



Q1 net sales on budget but poor trading conditions mean lower whole year forecasts

- In every important respect Q1 was on budget. The sales pipeline and potential business was generally greater than last year but at the same time the sales cycle has become considerably longer.
- Net sales were DKK 133m compared to approximately DKK 147m, excluding non-continuing activities, for the same period last year. Net sales were down and staffing was reduced accordingly from 896 to 808, with net sales per employee remaining unchanged. Axapta project sales were up about 6% to approximately DKK 93m compared to the same quarter last year.
- Earnings before tax and depreciation (EBITDA) in Q1 were DKK 2.4m compared to more than DKK 5m in Q1 2002. Excluding non-continuing activities, EBITDA in Q1 2002 was approximately DKK 3.6m.
- Pre-tax results for Q1 2003 were DKK -8.2m, up from DKK -9.9m in Q1 2002, excluding non-continuing activities in Q1 2002.
- Employment costs and other fixed costs were approximately DKK 100m in Q1 2003, down DKK 16m on the same period last year. Of the DKK 16m, around DKK 8m related to non-continuing activities.
- Columbus IT Partner's liquidity developed essentially in line with budget during the period and remains tight. Some subsidiaries have required funding from the parent company as a result of disappointing sales and/or later than expected payments by trade debtors. This was countered in part by transferring similar sums from other more liquid subsidiaries.
- The Board of Directors was authorized at the Annual General Meeting on 24 April to increase capital by way of a rights issue, with 75% being underwritten by Nordea Bank and Gaardboe Holding. The Company is finalizing preparations for the rights issue and will shortly be sending a separate notice to Copenhagen Stock Exchange about this, including the timetable.
- So far, there has been a low level of activity in Q2. The Company feels some uncertainty about the remainder of the year and is forecasting lower net sales for the whole of 2003. Sales of the order of DKK 550m (down from DKK 575 - 600m) are forecast, with EBITDA at DKK 20 - 25m (down from DKK 35 - 40m). Whole year results after tax and minority interests will be of the order of DKK -20m. When the results of the rights issue are available, the Company will take decisions about any disposals and other activities which are not included in the outlook.

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Financial Highlights

Income statement (DKKm)	2002	Q1 2002	Q1 2003	Q1 2002 adjusted *
Net sales	607.0	154.7	133.4	147.3
Capitalized development costs	10.0	2.0		0.0
External project costs	-150.3	-35.7	-31.4	-35.5
Gross profit I	466.7	121.0	102.2	111.8
Employment costs	-327.0	-80.8	-73.5	-75.3
Gross profit II	139.7	40.2	28.7	36.5
Other external costs	-140.7	-35.0	-26.3	-32.9
Other operating income	10.2	0.0	0.0	0.0
Other operating costs	-1.2	0.0	0.0	0.0
EBITDA	8.0	5.2	2.4	3.6
Depreciation and amortization excl. goodwill	-20.7	-5.4	-4.5	-4.8
EBITA	-12.7	-0.2	-2.1	-1.2
Amortization and write-down of goodwill	-63.1	-5.5	-2.9	-5.5
EBIT	-75.8	-5.7	-5.0	-6.7
Financial items. net	-14.4	-3.5	-3.2	-3.2
Result before tax	-90.2	-9.2	-8.2	-9.9
Tax on results for the period	-9.7	-1.4	-1.6	-1.4
Minority interests	0.0	-1.8	-0.9	-1.8
Result for the period	-99.9	-12.4	-10.7	-13.1
* Adjusted for non-continuing activities.				
Balance Sheet (DKKm)				
Fixed assets	113.9	183.1	107.3	
Current assets	240.1	312.7	221.3	
Total assets	354.0	495.8	328.6	
Shareholders' equity	-15.3	74.0	-28.0	
Minority interests	15.3	17.8	16.5	
Debt and other provisions	354	404.0	340.1	
Total liabilities	354.0	495.8	328.6	
Cash flow (DKKm)				
Cash flow from operations	24.0	-27.4	-8.3	
Cash flow from investments	-5.7	-1.2	-1.6	
including investment in tangible fixed assets	-10.2	0.8	-1.2	
Cash flow from financing activities	-29.6	16.8	8.4	
Total cash flow	-11.3	-11.8	-1.5	
Financial ratios				
Gross margin II	23.0%	26.0%	21.5%	
EBITDA margin	1.3%	3.4%	1.8%	
Operating margin (EBIT)	-12.5%	-3.7%	-3.7%	
Return on investment III	-14.8%	-0.7%	-0.4%	
Return on equity	-282.3%	-15.4%	-	
Equity ratio	-	14.9%	-	
Earnings per share (EPS)	-12.4	-1.5	-1.3	
Net asset value per share (NAV)	-1.9	9.2	-3.5	
Employees, year-end	829	896	808	
Cash flow per share	3.0	-3.4	-1.0	

The key figures and financial ratios above have been calculated in accordance with the Danish Society of Financial Analysts "Recommendations and Key Figures 1997"

Developments in Q1 2003

Net sales for Q1 2003 amounted to DKK 133m, down about 10% on net sales (excluding non-continuing activities) of approximately DKK 147m in the same period in 2002. Sales split into 68% for consultancy services, 31% for software and 1% for hardware.

Excluding non-continuing activities, Axapta-based project sales accounted for about 70% of net sales and were about 6% up from approximately DKK 88m in Q1 2002 to DKK 93m in Q1 2003.

Sales split in Q1 2002 and 2003

Net sales Q1	2002	2003	Net sales Q1	2002	2003
Hardware	4%	1%	Axapta	61%	70%
Software	29%	31%	Attain	5%	4%
Services	67%	68%	XAL	27%	15%
			Other	7%	11%
Total	100%	100%	Total	100%	100%

Note: No adjustments have been made to the table above for non-continuing activities in 2002.

Net contribution amounted to DKK 102m, corresponding to a contribution ratio of 76.6%, down 1.6% percentage points on the same period last year as a result of relatively greater use of subcontractors. External project expenses were DKK 4m down on the same period last year, primarily because of the decline in sales.

Columbus IT Partner's other external expenses and employment costs amounted to about DKK 100m in Q1 2003, down DKK 16 on the same period last year when these items were also positively affected by the temporary reduction in payroll. About DKK 8m of these DKK 16m related to non-continuing activities. Of the total reduction of DKK 16m, other external expenses fell by DKK 9m compared to Q1 2002, primarily as a result of lower expenses for travel, premises and staff. Employment costs fell by DKK 7m, which should also be seen in the light of the number of employees having fallen from 896 at 31 March 2002 to 808 at 31 March 2003.

Amortization and write-down of goodwill for Q1 2003 fell by almost 50% compared to the same period last year. This development was due to the considerable write-down of goodwill undertaken in presenting the Annual Report for 2002.

Depreciation on other fixed assets fell DKK 1m compared to Q1 2002 which may be explained by the disposal of the municipality activities, and hence the disposal of intangible fixed assets, in 2002.

Tax on Q1 results amounted to DKK 1.6m and relates to profit-making subsidiaries.

Earnings before tax and depreciation (EBITDA) amounted to DKK 2.4m in the period; excluding non-continuing activities, EBITDA amounted to approximately DKK 3.6m in the same period in 2002.

Columbus IT Partner's increasing concentration on clients and its focus on international client projects is giving results and during the first quarter, it won a series of major contracts in Eastern and Central Europe and in USA, such as Zurn Industries (US), Sehria Hoe Pit, Rigla, Corus (Russia), Holder (France) and Dekker (Netherlands).

Regional developments

(Q1)	Net sales (DKKm)		EBITDA (DKKm)		Employees (31 March)	
	2002	2003	2002	2003	2002	2003
Nordic	77	65	-2	-3	377	307
Western Europe	34	29	0	0	179	159
Eastern Europe	21	20	2	1	234	254
Rest of the world	23	19	5	4	106	88
Total	155	133	5	2	896	808

Note: No adjustments have been made to the table above for non-continuing activities in 2002.

Nordic

Q1 2003 net sales for the region were down 8% at DKK 65m excluding non-continuing activities. At 31 March 2003, there were 307 employees in the region which, excluding non-continuing activities, corresponds to a drop of 12% compared to the same time in 2002. Net sales per employee was accordingly up about 4%.

In Q1 2002, the municipality activities accounted for about DKK 6m in net sales, DKK 1.5m in EBITDA and 40 staff. These activities and 28 employees were only transferred in Q2 2002. It is these activities which are designated "Non-continuing activities" in this region.

EBITDA for the region was DKK -3m, a change of approximately DKK -1m compared to the previous year. Head office services come under the Nordic region and since only some of the total costs are charged out on the basis of the services and product rights made available to subsidiaries, EBITDA for the region is not comparable with Columbus IT Partner's other regions.

Western Europe

In Western Europe, net sales fell by DKK 5m to DKK 29m in Q1 2003 and EBITDA was DKK 0m which was in line with the same period last year. Whereas it was the UK company which had a negative impact on EBITDA in Q1 2002, in Q1 2003 it was the German company which did so. In order to boost motivation and effort in a difficult market, Columbus IT Partner has offered various staff partial ownership of the local German company. The initiative that was taken at the end of Q1 2003 means a reduction in salary and reflects the positive results achieved with a similar model in Norway and Sweden.

Eastern Europe

At DKK 20m, net sales in Eastern Europe in Q1 were down DKK 1m, due to a slight recession in certain countries. EBITDA also fell by DKK 1m compared to Q1 2002, which was due amongst other things to an increase in total payroll costs for the region as a result of the planned build-up of resources there.

Rest of the world

In the rest of the world, Columbus IT Partner achieved net sales in Q1 of DKK 19m, down DKK 4m compared to the same period in 2002. EBITDA was down approximately DKK 1m on the same period in 2002 at DKK 4m, due to a fall in sales and earnings on American business, primarily as a result of the weaker USD and the termination of activities in Singapore. In South and Central America, net sales and results developed well.

Accounting policies

This quarterly report has been prepared in accordance with the provisions of the Company Accounts Act for Class D enterprises, Danish accounting guidelines and the requirements of Copenhagen Stock Exchange for the presentation of accounts for listed companies.

Accounting policies are unchanged from 2002.

Investments

Total investment in tangible and intangible fixed assets with the exception of goodwill amounted to DKK 1m in Q1 2003 compared to DKK 3m for the same period in 2002. Capitalization of development projects totaled DKK 0.2m, down sharply compared to the same period last year. Various minor development activities were expensed directly in Q1 2003.

Developments in liquidity

Columbus IT Partner's liquidity developed essentially in line with budget in the period and remains tight. Since the beginning of the year, cash funds have fallen by DKK 2m to DKK 28m. Some subsidiaries have required funding from the parent company as a result of disappointing sales and/or later than expected payments by trade debtors. This was countered in part by transferring similar sums from other more liquid subsidiaries. Cash funds are mainly held in various foreign subsidiaries, in many of which Columbus IT Partner has 51% holdings.

Foreign exchange

The Group has not undertaken any significant hedging operations during the past year. Currency risks for international contracts are limited by servicing them from the local companies so as to match insofar as possible Columbus IT Partner's income and expenses in foreign currencies.

Equity trends (DKKm)	2002	Q1/ 2003	Q1 2003 incl. rights issue*
Equity 31/12	86.2	-15.3	-15.3
Effect of changes to accounting policies	-0.1	0.0	0.0
Adjusted equity 1/1	86.1	-15.3	-15.3
Capital increase			72.3
Rights issue – expenses			-5.0
Currency adjustments for foreign subsidiaries, etc.	0.3	-2.0	-2.0
Result for the period	-12.4	-10.7	-10.7
Shareholders' equity 31st March	74.0	-28.0	39.3
Subordinated loan capital	0.0	0.0	17.7

* The figures in this column reflect how equity would have appeared in the period if the rights issue had been held.

Latest developments

The minority shareholders in the subsidiaries in Baltimore and Los Angeles have decided to exercise their right to sell their shares in the respective companies to Columbus IT Partner. Negotiations about the transfer are in progress in Baltimore and negotiations on the transfer in Los Angeles have been completed and the transfer is expected to be finalized in Q2 2003.

The level of activities in April 2003 has been under budget and despite the continuing strength of the sales pipeline, the number of senior and administrative staff in the Group will be reduced. Overall, staffing is expected to be reduced by 50 before the end of May. Reductions will affect eight countries in all.

Jan Hansen, CEO of the Danish subsidiary, has resigned and is expected to be replaced.

In addition to the matters described in this quarterly report, no events have occurred since 31 March 2003 which are significant for assessing the financial status of Columbus IT Partner.

Outlook for net sales and results for 2003

So far, there has been a low level of activity in Q2. The Company feels some uncertainty about the remainder of the year and is forecasting lower net sales for the whole of 2003. The forecast for net sales is of the order of DKK 550m (down from DKK 575 - 600m).

In 2003, EBITDA margin for all quarters of the year is expected to rise from 1.8% in Q1 to 7-8% in Q4 2003. The improvement in EBITDA margin will be achieved partly by improved contribution ratio and partly by way of greater efficiency which is expected to be achieved by switching fixed costs to a more variable base and by reducing the number of non-fee earning staff, i.e. administrative and senior staff. This will ensure that the forecast positive trends for net sales will not be reflected in commensurate growth in expenses and it will also ensure efficient handling of fluctuations in the level of activity over the year. EBITDA is expected to be DKK 20 - 25m (down from DKK 35 - 40m), and after tax and minorities, whole year results will be of the order of DKK -20m. When the results of the rights issue are available, the Company will make decisions about the extent of any disposals and other activities not included in the outlook.

The above means that there is considerable uncertainty about the outlook for 2003 and capital resources.

Safe Harbor statement

The statements about the future made in this report reflect the management's current expectations for certain future events and financial results. By their very nature, some uncertainties attach to statements about the future and the results finally achieved could therefore vary considerably from the expectations expressed. Further, some expectations are based on assumptions about future events which may turn out to be incorrect.

Factors that could mean that the results achieved differ significantly from the expectations expressed include, but are not restricted to, developments in trading conditions and the financial markets and the fiscal impact of unforeseen events, changes in regulations and legislation; rising competition for business solutions in Denmark and abroad; trends for demand, product composition and pricing for business solutions; the development of Columbus IT Partner's international activities to which some political risks are attached and investment in, and disposal of, national and international companies.

Disclaimer

This document has been translated from Danish to English. The Danish text shall be the governing text for all purposes; in case of any discrepancy, the Danish wording shall be applicable.

Income statement 1 January - 31 March 2003

DKK 1000	1/1 - 31/3	1/1 - 31/3
	2002	2003
Net sales	154,703	133,375
Capitalized development costs	1,986	182
External project costs	-35,648	-31,337
Gross profit	121,040	102,220
Other external costs	-35,058	-26,277
Employment costs	-80,816	-73,529
Earnings before interest, tax, depreciation and amortization (EBITDA)	5,166	2,414
Depreciation excl. amortization of goodwill	-5,384	-4,535
Earnings before interest, tax and amortization (EBITA)	-218	-2,121
Amortization and write-down of goodwill	-5,494	-2,854
Operating income (EBIT)	-5,712	-4,975
Financial income	2,319	3,659
Financial expenses	-5,768	-6,871
Result before tax	-9,161	-8,187
Tax on result for the period	-1,394	-1,569
Result for the period	-10,555	-9,756
Minority interests	-1,812	-912
Columbus IT Partner's share of result for Q1	-12,367	-10,668

Balance sheet 31 March 2003

DKK 1000	31/3 2002	31/3 2003
Assets		
Completed development projects	13,264	4,129
License rights	1,279	220
Goodwill	128,460	71,876
Development projects in progress	1,985	690
Intangible fixed assets	144,988	76,915
Operating equipment and fixtures	38,108	29,680
Tangible fixed assets in progress	0	770
Tangible fixed assets	38,108	30,450
Total fixed assets	183,096	107,365
Stocks of goods for sale	8,098	7,044
Inventories	8,098	7,044
Trade receivables, goods and services	185,989	126,293
Contract work in progress	32,213	16,666
Receivables from affiliated companies	1,585	7,000
Corporation tax	4,030	1,040
Deferred tax assets	20,000	12,500
Other receivables	19,863	13,020
Accruals	8,150	9,352
Receivables	271,739	185,871
Cash funds	32,824	28,355
Total current assets	312,661	221,270
Total assets	495,757	328,635

Balance sheet 31 March 2003

DKK 1000	31/3 2002	31/3 2003
Liabilities		
Share capital	40,180	40,180
Share premium account	33,849	0
Retained earnings	0	-68,223
Shareholders' equity	74,029	-28,043
Minority interests		
	17,754	16,533
Deferred tax	9,316	1,211
Provisions	9,316	1,211
Credit institutions	30,683	25,303
Long-term debt	30,683	25,303
Short-term part of long-term debt	15,001	9,857
Credit institutions	161,512	134,168
Prepayments from customers	12,537	12,833
Trade payables	49,944	35,837
Payables to affiliated companies	17,922	23,597
Corporation tax	5,261	9,208
Other debt	89,627	80,262
Accruals	12,171	7,869
Short-term debt	363,975	313,631
Total debt	394,658	338,934
Total liabilities	495,757	328,635