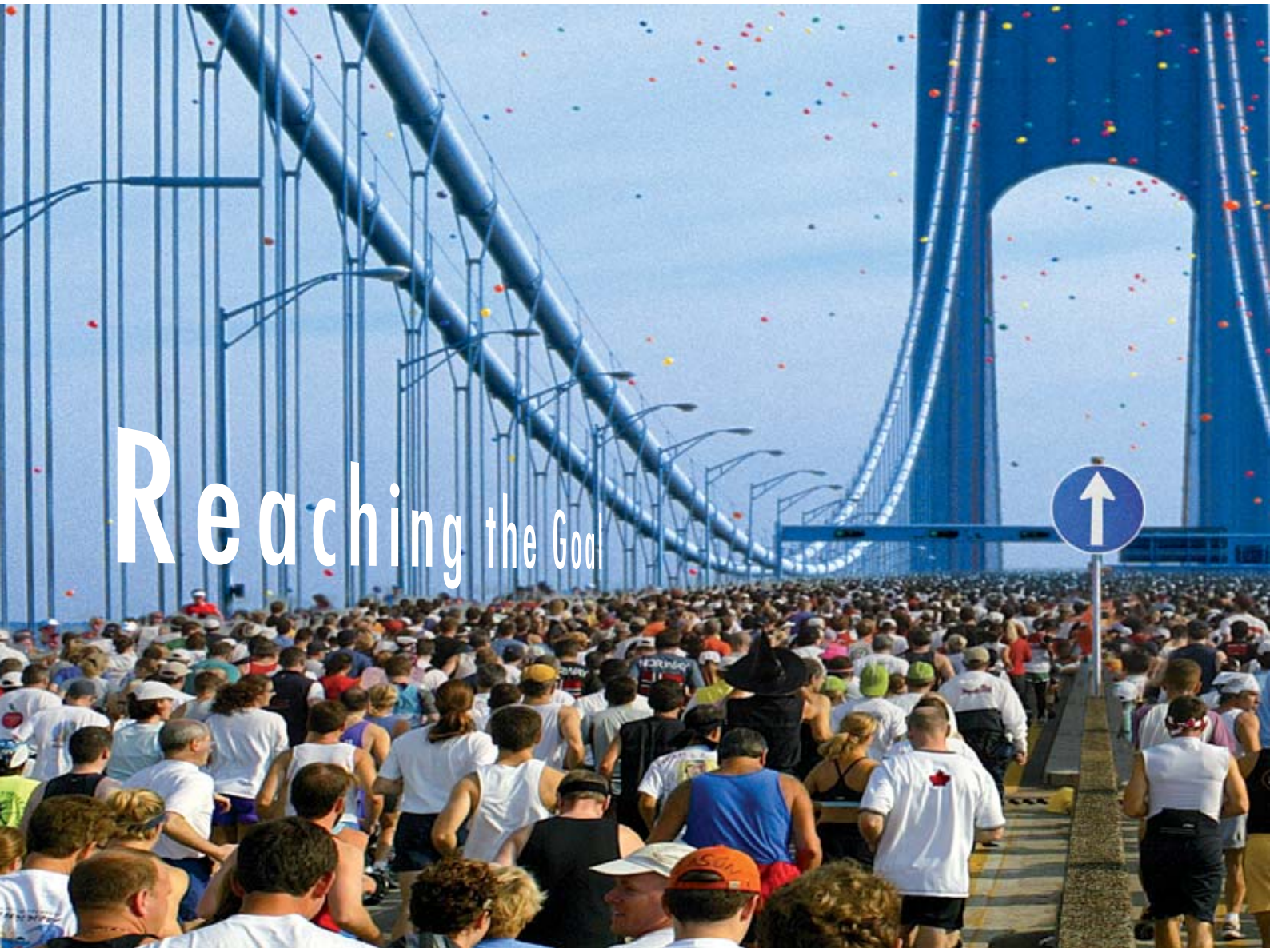
Annual Report

2006

REALTECH

Consoliodated Financial Statements



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Verrazano-Narrows Bridge
between Staten Island and Brooklyn,
New York, USA;
Starting point of the
New-York-City-Marathon.

To attain success, you need to
cross the bridge of planning.

Adolf Loos,
austrian architect

Consolidated Balance Sheets

ASSETS

	Notes	31.12.2006 EUR	31.12.2005 EUR
Fixed assets			
Intangible assets	(7)		
Concessions, industrial rights and similar rights and assets		162.340	208.074
Payments on account		0	548
Goodwill		4.335.679	4.335.679
		4.498.019	**4.544.301**
Tangible assets	(7)		
Property, plant and equipment		8.002.845	8.272.105
Technical equipment and machines		60.341	74.602
Other equipment and office equipment		1.491.969	1.927.167
		9.555.155	**10.273.874**
Financial assets	(7)		
Securities		34.631	21.080
Other loans		52.830	32.145
		87.461	**53.225**
Current assets			
Receivables and other assets			
Trade receivables	(9)	17.330.648	14.643.373
Tax assets	(14)	205.680	454.343
Other assets	(10)	745.039	514.521
		18.281.367	**15.612.237**
Securities	(11)	**15.024.394**	**16.471.444**
Cash ans cash equivalents		**12.972.973**	**9.476.187**
Deferred tax assets	(14)	**517.319**	**879.126**
Total assets		**60.936.688**	**57.310.394**

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SHAREHOLDERS' EQUITY AND LIABILITIES

	Notes	31.12.2006 EUR	31.12.2005 EUR
Shareholders' equity	(12)		
Subscribed capital		6.570.284	6.467.414
(authorized capital EUR 3.130.837; py: EUR 3.233.707)			
Additional paid-in capital		33.749.587	33.228.257
Revaluation surplus		25.969	(179.046)
Cumulative translation differences		(157.299)	(23.239)
Retained earnings		5.336.833	3.943.669
		45.525.374	**43.437.055**
Minority interests	(13)	**370.496**	**286.909**
		45.895.870	**43.723.964**
Current liabilities			
Trade accounts payable	(16)	1.768.110	1.610.518
Income tax payable	(14)	919.400	992.950
Provisions	(15)	8.266.118	7.424.287
Other liabilities	(16)	2.145.214	1.920.682
Deferred income		1.124.803	1.001.445
		14.223.645	**12.949.882**
Deferred tax liabilities	(14)	**817.173**	**636.548**
Total shareholders' equity and liabilities		**60.936.688**	**57.310.394**

Consolidated Statements of Income

	Notes	2006 EUR	2005 EUR
Revenues	(18)	54.380.196	50.046.887
Costs of revenues		32.350.069	30.972.167
Gross profit		**22.030.127**	**19.074.720**
Selling and marketing expenses		7.246.295	6.086.984
General and administrative expenses		7.039.189	6.974.496
Research and development expenses		4.593.382	5.077.156
Other operating expenses	(20)	1.553.980	1.073.603
Other operating income	(21)	2.133.347	1.825.499
Operating income		**3.730.628**	**1.687.980**
Net interest	(22)	456.656	379.881
Income from associated companies		0	121.737
Income from financial assets and securities		102.573	131.631
Foreign currency exchange gains / losses		(90.712)	76.512
Income before taxes (and minority interests)		**4.199.145**	**2.397.742**
Income taxes	(14)	2.180.166	1.219.417
Income before minority interests		**2.018.979**	**1.178.325**
Minority interests		(116.570)	(67.926)
Net income		**1.902.409**	**1.110.399**
Accumulated profit/loss carried forward		3.943.669	2.833.270
Dividend payment		(509.245)	0
Retained earnings		**5.336.833**	**3.943.669**
Earnings per share – basic		0,37	0,22
Earnings per share – diluted		0,34	0,21
Average number of shares outstanding – basic		5.173.452	5.092.452
Average number of shares outstanding – diluted		5.632.452	5.312.452

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Consolidated Statements of Cash Flows

	2006	2005
	EUR	EUR
Net income	**1.902.409**	**1.110.399**
Depreciation of fixed assets	1.363.441	1.431.783
Change in income tax payable	(364.171)	58.076
Payment for income taxes	290.621	167.559
Change in accrued expenses	841.831	916.900
Change in trade accounts receivable	(2.687.275)	1.072.574
Change in other assets	379.953	687.149
Change in trade accounts payable and in other current liabilities	686.107	(626.861)
Cash flow from operating activities	**2.412.916**	**4.817.579**
Asset disposals	43.145	29.424
Purchase of intangible assets	(68.618)	(240.980)
Purchase of tangible assets	(566.491)	(895.537)
Investment in financial assets	(40.712)	708.017
Change in current securities	990.393	1.960.588
Proceeds from interests	463.496	386.716
Payment for interests	(6.840)	(6.835)
Cash flow from investing activities	**814.373**	**1.941.394**
Change in dividends	(509.245)	0
Change in convertible bonds	521.330	0
Other change in shareholders' equity and in minority interests	257.411	171.889
Cash flow from financing activities	**269.496**	**171.889**
Change in cash and cash equivalents	**3.496.786**	**6.930.861**
Cash and cash equivalents at beginnig of the period	**9.476.187**	**2.545.326**
Cash and cash equivalents at end of the period	**12.972.973**	**9.476.187**

Consolidated Statements of Changes in Shareholders' Equity

	Common stock	Subscribed capital	Additional paid-in-capital
	Number	EUR	EUR
December 31, 2002	**5.077.586**	**6.467.414**	**36.798.418**
Net income			
Unrealized profit/loss from securities translations incl. effects from its realization			
Translation adjustments			
Purchase of treasury stock	(1.420)		
December 31, 2003	**5.076.166**	**6.467.414**	**36.798.418**
Net income			
Unrealized profit/ loss from securities translations incl. effects from its realization			
Translation adjustments			
Withdrawal from additional paid-in-capital			(3.678.819)
Purchase of treasury stock	16.286		108.657
December 31, 2004	**5.092.452**	**6.467.414**	**33.228.257**
Net income			
Unrealized profit/ loss from securities translations incl. effects from its realization			
Translation adjustments			
Minority interests			
December 31, 2005	**5.092.452**	**6.467.414**	**33.228.257**
Change in subscribed capital	81.000	102.870	
Net income			
Unrealized profit/ loss from securities translations incl. effects from its realization			
Translation adjustments			
Dividend payment			
Execution of stock options and convertible bonds			521.330
Minority interests			
December 31, 2006	**5.173.452**	**6.570.284**	**33.749.587**

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Revaluation surplus	Cumulative translation differences	Retained earnings	Minority interests	Treasury stock	Shareholders' equity
EUR	EUR	EUR	EUR	EUR	EUR
(72.892)	**(10.244)**	**1.240.333**	**0**	**(19.002)**	**44.404.028**
		(325.580)			(325.580)
(31.837)					(31.837)
	(20.802)				(20.802)
				(1.815)	(1.815)
(104.728)	**(31.046)**	**914.753**	**0**	**(20.817)**	**44.023.993**
		(1.760.301)			(1.760.301)
120.178					120.178
	(71.668)				(71.668)
		3.678.819			
				20.817	129.474
15.450	**(102.714)**	**2.833.270**	**0**	**0**	**42.441.677**
		1.110.399			1.110.399
(194.496)					(194.496)
	79.475				79.475
			286.909		286.909
(179.046)	**(23.239)**	**3.943.669**	**286.909**	**0**	**43.723.964**
					102.870
		1.902.409			1.902.409
205.015					205.015
	(134.060)				(134.060)
		(509.245)			(509.245)
					521.330
			83.587		83.587
25.969	**(157.299)**	**5.336.833**	**370.496**	**0**	**45.895.870**

Notes to the Consolidated Financial Statements

ACCOUNTING POLICIES

1. Basis of preparation of the consolidated financial statements

REALTECH AG has prepared its consolidated financial statements in accordance with the accounting standards of the International Accounting Standards Board (IASB) – i.e. the International Financial Reporting Standards (IFRS) as they must be applied in the EU – since fiscal year 2005. The IAS, IFRS, and corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC – formerly SIC) applicable on December 31, 2006 have been taken into account. The figures for the previous year have also been determined based on the same standards.

According to Section 315a of the German Commercial Code (Handelsgesetzbuch, HGB), REALTECH AG is required to prepare consolidated financial statements in accordance with IFRS. The consolidated financial statements have been prepared in euros. Where there is no indication of the contrary, all amounts are specified in thousands of euros (TEUR). The consolidated financial statements give a fair presentation of the Group's net assets, financial position, and earnings situation.

The income statement has been prepared in accordance with the "cost of sales" method.

REALTECH AG is a registered stock corporation under German law and is headquartered in Walldorf/Baden, Germany.

The company maintains a presence and offers its products and services in Germany, Italy, Spain, Portugal, the United States of America, New Zealand, Singapore, Japan, and Argentina.

The company manages and supports its subsidiaries specializing in technology consulting, hosting SAP and e-business solutions, and software development for applications and systems management.

The consolidated financial statements and Group management report have been drawn up by the Executive Board, and were approved for forwarding to the Supervisory Board on February 20, 2007.

2. Companies included in the consolidated financial statements

The group of consolidated companies of REALTECH AG, Walldorf, contains all subsidiaries in which the parent company holds a direct or indirect majority of voting rights:

REALTECH System Consulting GmbH, Walldorf, Germany, 100%

REALTECH Sales GmbH, Walldorf, Germany, 100%

DB-Online GmbH, Walldorf, Germany, 100%

LMC-LAN Management Consulting GmbH, Schweitenkirchen, Germany, 100%

GloBE Technology GmbH, Walldorf, Germany, 100%

REALTECH Italia S.p.A., Agrate Brianza, Italy, 100%

REALTECH System Consulting S.L., Madrid, Spain, 100%

REALTECH Portugal System Consulting Sociedade Unipessoal Lda, Lisbon, Portugal, 100%

REALTECH Inc., Malvern, PA, USA, 100%

REALTECH Ltd., Auckland, New Zealand, 100%

REALTECH System Consulting Pte. Ltd., Singapore, 100%

REALTECH Japan Co., Ltd., Tokyo, Japan, 54.1%

The group of consolidated companies has not changed since December 31, 2005.

Of the German subsidiaries with the legal form of a corporation, REALTECH System Consulting GmbH, Walldorf, LMC-LAN Management Consulting GmbH, Schweitenkirchen, and REALTECH Sales GmbH, Walldorf fulfilled the requirements stipulated in Section 264 (3) of the German Commercial Code (Handelsgesetzbuch) for utilizing the exemption regulation. The company thus refrains from disclosing the annual financial statements.

3. Consolidation methods

The consolidated financial statements are based on annual financial statements that the companies included in the Group have prepared following the uniform IFRS rules. They have been checked by independent auditors. In accordance with the IFRS specifications, initial consolidation is carried out at the time of purchase, while deconsolidation is carried out at the time of sale. The balance sheet dates of the companies included in the consolidated financial statements correspond to the Group's balance sheet date (December 31).

For the subsidiaries included, capital consolidation is carried out using the purchase method. The cost of the interests acquired is offset against the proportionate equity of the subsidiary at the time of purchase. Where no substantial differences exist between the fair value and the recognized value of assets and liabilities, remaining differences are recognized as goodwill under intangible assets in accordance with IFRS 3. Negative goodwill must be recognized in the income statement. For all companies initially consolidated before January 1, 2004, the updated values from consolidation in conjunction with US-GAAP accounting have been retained in accordance with IFRS 1.

Intercompany revenues, income and expenses, and receivables and payables are offset and intercompany profits are eliminated. The necessary deferred taxes are applied to the consolidation transactions.

4. Currency translation

The annual financial statements of the company's foreign subsidiaries are converted to euros in accordance with IAS 21 using the modified reporting date method and based on the concept of functional currency. As the subsidiaries conduct their operations autonomously from an organizational, financial, and economic viewpoint, the national currency in each case is identical to the functional currency.

Income and expenses are converted at average annual exchange rates, while assets and liabilities are converted using the mean rate on the balance sheet date. The resulting difference is offset against equity with no effect on profit or loss and is shown separately there.

5. Summary of significant accounting policies

Intangible assets

Intangible assets are accounted for and measured in accordance with IAS 38, which stipulates that intangible assets acquired must be measured at cost less straight-line depreciation.

Intangible assets essentially comprise software and acquired goodwill. The regular useful life of software is three years.

In connection with the rules of IFRS 3, goodwill is accounted for based on the impairment only method and is subject to regular impairment tests.

The impairment tests are carried out for the defined cash generating units based on the rules of IAS 36 using the discounted cash flow method. The data from corporate planning, approved by management and the supervisory bodies, is used for this. This is based on a three-year period. Planning is based on the experience and results of past fiscal years, as well as on expectations regarding future market developments. As it is assumed that the acquired goodwill will be utilized in the long term, the last planning phase has been continued without a growth markup. The two segments of consulting and software are defined as cash generating units. The goodwill of EUR 4,315 thousand recognized on December 31, 2006 is made up of EUR 2,613 thousand from the consulting segment and EUR 1,702 thousand from the software segment.

Tangible assets

Tangible assets are recognized at cost less usage-based depreciation. A useful life of between 3 and 10 years is defined for movable tangible assets. Buildings are subject to straight-line depreciation over 40 years.

Write-downs on tangible assets are carried out in accordance with IAS 36, as long as the recoverable amount of the asset is higher than the carrying amount. The recoverable amount of an asset is defined as the higher of its net realizable value and its value in use. If the reasons for carrying out write-downs in previous years have ceased to apply, the asset is written up accordingly.

Leasing

Lessees are considered to be beneficial owners if all the risks and rewards incidental to ownership are substantially transferred by the terms of the finance lease (IAS 17). If beneficial ownership is attributable to the REALTECH Group, the assets are capitalized at the time the contract is signed – at fair value or at the lower present value of the minimum lease payments. Depreciation is carried out using the straight-line method in line with the economic life or over the shortened contract term.

The discounted payment obligations resulting from the leasing installments are treated as liabilities and presented under other liabilities.

Where operating leases exist in the REALTECH Group, leasing installments or rental payments are treated directly as an expense in the income statement.

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Receivables

Trade receivables are shown at the time the revenue is realized or consideration is rendered and are measured at amortized cost taking account of appropriate markdowns for all recognizable risks.

Receivables resulting from issuing software licenses are not accounted for until a signed contract with the customer exists, any rights of return that have been granted have expired, and the software has been provided in accordance with the contract.

Other receivables are measured at cost. They are written down to the respective market price.

Deferred taxes

Deferred taxes are recognized, in accordance with IAS 12, for all temporary differences between the carrying amounts in the consolidated balance sheet and the tax base of assets and liabilities, as well as for tax loss carryforwards.

Deferred tax assets for accounting and measurement differences as well as for tax loss carryforwards are only recognized if it is sufficiently probable that these differences will lead to the corresponding benefits in the future. Deferred tax assets and liabilities are set off against one another if the tax creditors are identical and the payment periods match.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, bank balances and fixed-term deposits with terms of up to 3 months. The securities item only includes highly liquid short-term financial investments which can be converted into certain cash amounts at any time and are only subject to insignificant value fluctuations.

The company classifies all current-asset securities as available for sale. These items are measured on the balance sheet date at market value, with value changes being offset against equity with no effect on profit or loss.

Liabilities

Liabilities are carried at amortized cost. Liabilities resulting from finance leases are shown at the present value of the future leasing installments.

Provisions

Provisions take account of all recognizable obligations to third parties in accordance with IAS 37. It must be possible to reliably estimate their extent and it must be more likely than unlikely that this will lead to an outflow of future resources. Provisions are only made for legal and constructive obligations to third parties.

No provisions are made for expenses because there is no external obligation in this case. The established provisions are assigned to current liabilities.

Use of estimates

A certain amount of estimates and assumptions are required in the consolidated financial statements. These affect the assets and liabilities carried on the balance sheet and the disclosure of income and expenses during the period under review. The actual amounts may differ from the estimates and assumptions.

Revenues

The revenues of REALTECH AG essentially involve revenues from service contracts, from granting software licenses (usually for a limited period of time) and from the services closely related to this, as well as from maintenance revenues.

Service contracts for which customers are billed on the basis of the hours worked are accounted for depending on the services rendered by the REALTECH companies.

Revenues and expenses resulting from service contracts for which a fixed price has been agreed are accounted for based on the progress of the service (percentage of completion method, "PoC") in accordance with IAS 11 and IAS 18 – if the extent of the revenues can be measured reliably, it is sufficiently probable that the economic benefits associated with the transaction will flow to REALTECH AG, and the costs incurred for the transaction and the costs to complete the transaction can be determined reliably.

Revenues resulting from issuing licenses with no time restriction are not accounted for until a signed contract with the customer exists, any rights of return that have been granted have expired, the software has been provided in accordance with the contract, a price has been agreed or can be determined, and payment is sufficiently probable.

Revenues resulting from the maintenance business are accounted for proportionately over the period during which the service is rendered.

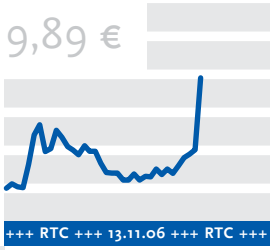
Revenues are presented less discounts, price reductions, and customer bonuses.

Costs of revenues

Costs of revenues comprise full production-related costs on the basis of normal capacity utilization. Specifically, costs of revenues include individual costs that can be directly attributed to orders – essentially costs for personnel – as well as fixed and variable overheads, for instance depreciation.

Research and development expenses

Research and development expenses are treated as an expense in the income statement when they are incurred. During the process of creating and further developing software, the research and development phases are closely connected. This makes it impossible to precisely distinguish between the expenses involved in the two phases. The criteria for capitalizing separate development expenses in accordance with IAS 38.57 in conjunction with IAS 38.53 are therefore not met.



6. Essential differences between IFRS/IAS accounting and accounting based on German commercial law

The accounting and measurement rules that are essentially different from those under German commercial law are as follows:

- Goodwill is subject to a regular impairment test. It is no longer amortized.
- Available-for-sale securities are measured at their fair value, even if this value exceeds the cost. Price gains and losses are recognized in the income statement.
- Revenues from fixed-price projects are accounted for based on the percentage of completion.
- Buildings are depreciated in line with their probable useful life, not based on tax scales.
- Leasing agreements which meet the more restrictive requirements for financial leasing defined by IFRS are recognized in the balance sheet as an asset or leasing liability.
- Provisions are only made for obligations to third parties if the probability of a claim being made is at least 50 percent. Medium-term and long-term provisions are recognized at their present value. No provisions are made for neglected maintenance or for expenditure.
- According to IFRS there is a general obligation to recognize deferred taxes for all temporary differences between the tax values and the values recognized in the consolidated balance sheet, whereby quasi-permanent differences must also be classified as being temporary. When it comes to calculating deferred taxes, the tax rate that must be applied is that which will be valid in the future at the time when the tax deferral is likely to be reversed based on the legal situation in the various countries on the balance sheet date.

According to German commercial regulations, it is only obligatory to recognize the deferred tax liabilities and the deferred tax assets on consolidation measures. In the process, the deferred taxes are calculated based on the tax rates valid on the balance sheet date. It is not permissible to recognize deferred taxes for quasi-permanent differences between the values in the tax balance and the consolidated balance sheet which are only amortized over a longer period of time or when the asset is sold or liquidated.

According to IFRS, deferred tax assets must be accounted for on tax loss carryforwards provided that it is sufficiently probable that the future tax benefit will be realized.

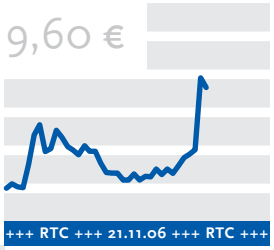
Monetary items in foreign currency are measured using the closing rate and recognized in the profit or loss for the period. As an exception to this rule, exchange differences from non-current intragroup items which constitute part of a net investment in a foreign company are recognized within equity with no effect on profit or loss.

NOTES ON THE CONSOLIDATED BALANCE SHEETS AND THE CONSOLIDATED STATEMENTS OF INCOME

7. Fixed assets

Fixed assets changed as follows:

	Acquisition and manufacturing costs				
	01.01.2006	Additions	Disposals	Currency translation adjustments	31.12.2006
	TEUR	TEUR	TEUR	TEUR	TEUR
Concessions, industrial rights and similar rights and assets	1.835	70	0	(1)	1.904
Goodwill	7.075	0	0	0	7.075
Intangible assets	**8.910**	**70**	**0**	**(1)**	**8.979**
Property, plant and equipment	9.996	47	0	(1)	10.042
Technical equipment and machines	181	21	12	(9)	181
Other equipment and office equipment	7.496	554	142	(46)	7.862
Tangible assets	**17.673**	**622**	**154**	**(56)**	**18.085**
Securities	21	21	6	(1)	35
Other loans	32	21	0	0	53
Financial assets	**53**	**42**	**6**	**(1)**	**88**
	26.636	**734**	**160**	**(58)**	**27.152**



	Accumulated depreciation					Net book values	
	01.01.2006	Additions	Disposals	Currency translation adjustments	31.12.2006	31.12.2006	31.12.2005
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
	1.627	115	0	0	1.742	162	208
	2.739	0	0	0	2.739	4.336	4.336
	4.366	**115**	**0**	**0**	**4.481**	**4.498**	**4.544**
	1.724	316	0	(1)	2.039	8.003	8.272
	106	29	9	(5)	121	60	75
	5.569	944	108	(35)	6.370	1.492	1.927
	7.399	**1.289**	**117**	**(41)**	**8.530**	**9.555**	**10.274**
	0	0	0	0	0	35	21
	0	0	0	0	0	53	32
	0	**0**	**0**	**0**	**0**	**88**	**53**
	11.765	**1.404**	**117**	**(41)**	**13.011**	**14.141**	**14.871**

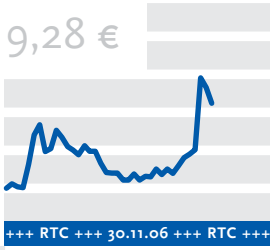
8. Interests in associates

On December 31, 2006, REALTECH AG directly held interests of at least 20% in the following companies:

Company name and location	Share of capital	Equity on 31.12.2006	Net income 2006
	%	TEUR	TEUR
REALTECH System Consulting GmbH, Walldorf, Germany	100,0	26	[1]
REALTECH Sales GmbH, Walldorf, Germany	100,0	24	[1]
DB-Online GmbH, Walldorf, Germany	100,0	159	2
LMC-LAN Management Consulting GmbH, Schweitenkirchen, Germany	100,0	39	[1]
GloBE Technology GmbH, Walldorf, Germany	100,0	234	3
REALTECH Italia S.p.A., Agrate Brianza, Italy	100,0	1.725	(492)
REALTECH System Consulting, S.L., Madrid, Spain	100,0	700	277
REALTECH Portugal System Consulting Sociedade Unipessoal Lda, Lissabon, Portugal	100,0	(23)	(44)
REALTECH Inc., Malvern, PA, USA	100,0	97	111
Realtech Ltd., Auckland, New Zealand	100,0	592	335
REALTECH System Consulting Pte. Ltd., Singapore	100,0	86	29
REALTECH Japan Co., Ltd., Tokyo, Japan	54,1	806	253

[1] A profit and loss transfer agreement exists.

Delivery and service relationships exist between the associates.



9. Trade receivables

	31.12.2006	31.12.2005
	TEUR	TEUR
Trade receivables	17.777	15.378
Allowances	446	735
	17.331	**14.643**

The trade receivables are due in the short term. This also includes those from production orders. The allowances have been calculated based on past experience of payment defaults.

10. Other assets

	31.12.2006	31.12.2005
	TEUR	TEUR
Advance wage and travel cost payments	102	130
Prepaid expenses	258	244
Saundry	385	141
	745	**515**

11. Securities

Excess funds are invested in part in interest-bearing securities, quoted in euros, with short-term or medium-term residual terms or in mutual funds that invest in such assets. The Group has therefore classified these securities as available for sale. There are no trading securities. The securities item is broken down as follows:

	Market value 31.12.2006	Unrealized gain 2006	Unrealized loss 2006
	TEUR	TEUR	TEUR
Interest-bearing securities	1.493	188	0
Mutual funds	13.531	253	0
	15.024	**441**	**0**

The Group's financial assets primarily comprise bank balances, trade receivables, and securities. The credit risk is limited in the case of liquid funds as these have been assigned a high credit rating by international rating agencies. The Group does not have a significant concentration of credit risks as the risks are spread among a large number of contract parties and customers.

12. Shareholders' Equity

Subscribed capital

The number of no-par value shares issued as per December 31, 2006 amounted to 5,173,452. Each share has an accounting par value of EUR 1.27. As a result of the exercising of conversion rights granted as part of the company's various share-based remuneration programs, the number of shares increased by 81,000. The nominal value of subscribed capital increased accordingly by EUR 102,870.00.

Authorized capital

The General Meeting of May 18, 2004 authorized the Executive Board to increase the share capital against cash and/or non-cash contributions by a total of up to EUR 3,233,707.02 before May 1, 2009 by issuing 2,546,226 no-par value shares (authorized capital). The Executive Board and Supervisory Board are authorized to exclude shareholders' subscription rights.

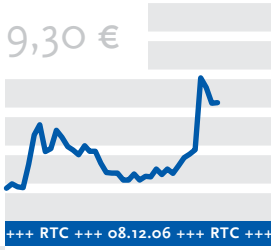
Contingently issuable shares

For the purpose of granting shares to the holders of convertible and/or warrant-linked bonds, the General Meeting on May 16, 2002 decided to implement a conditional capital increase of up to EUR 2,598,707.02 by issuing up to 2,046,226 new shares by May 15, 2007. Please also refer to the section on the Convertible Bond Program.

Share-based remuneration

REALTECH AG has set up various stock option and convertible bond programs for Executive Board members, senior executives, and other employees in the Group. The expense recorded for services during fiscal year 2006 is EUR 170 thousand (previous year: EUR 0 thousand). This concerns expenses resulting from share-based remuneration transactions with compensation through equity instruments in accordance with IFRS 2.

The assessment is based on an expected volatility of 25.90%. It is assumed that future trends can be derived from historical volatility values, whereby the actual volatility may differ from the assumptions made here. The calculation is based on the Black Scholes formula, applying a risk-free interest rate of 3.93%. The anticipated term of these options is five years. The exercise price is EUR 8.80.



Convertible bond program

The conditional capital increase resolved by the General Meeting on May 16, 2002 to issue convertible and/or warrant-linked bonds also entails bonds being issued to company employees and managers – apart from the group of four founding shareholders – as well as to employees and members of the executive boards of companies associated with the company in accordance with Section 15 of the German Stock Corporation Act (Aktiengesetz, AktG).

In fiscal years 2002 to 2006, convertible bonds were issued with the following conditions:

	2002	2003	2004	2005	2006
Issue date	31.07.2002	31.07.2003	31.07.2004	18.07.2005	31.07.2006
Face value	EUR 1,00	EUR 1,00	EUR 1,00	EUR 1,00	EUR 1,00
Total face value of the convertible bond	EUR 1.000	EUR 100	EUR 1.000	EUR 450	EUR 3.000
Term	30.07.2007	30.07.2008	30.07.2009	17.07.2010	30.07.2011
Interest p.a.	6,0 %	6,0 %	5,0 %	5,0 %	5,0 %
Exercise price	EUR 5,12	EUR 5,89	EUR 7,00	EUR 6,97	EUR 8,80
Issued options	100.000	10.000	100.000	45.000	300.000
Earliest time of conversion	31.07.2004	31.07.2005	31.07.2006	18.07.2007	31.07.2008
Latest time of conversion	30.07.2007	30.07.2008	30.07.2009	17.07.2010	30.07.2011

Issued options

The following table summarizes information concerning the company's stock options and convertible bonds as of December 31, 2006:

	Outstanding options		Exercisable options	
Year of issue	Number	Exercise price in EUR	Number	Exercise price in EUR
2002	25.000	5,12	25.000	5,12
2003	10.000	5,89	7.000	5,89
2004	79.000	7,00	19.000	7,00
2005	45.000	6,97	-	-
2006	300.000	8,80	-	-
	459.000		**51.000**	

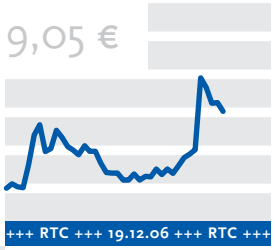
Development during the fiscal year

The following table indicates the number, weighted average exercise prices (WAEP) and development of the stock options and convertible bonds over the course of the fiscal year.

	2006		2005	
	Number	WAEP EUR	Number	WAEP EUR
Outstanding at the beginning of the reporting period	374.506	6,44	418.258	17,45
Issued in the reporting period	300.000	8,80	45.000	6,97
Exercised in the reporting period	81.000	5,61	0	-
Expired in the reporting period	134.506	10,69	88.752	52,59
Outstanding at the end of the reporting period	459.000	8,05	374.506	6,44
Exercisable at the end of the reporting period	51.000	5,93	177.006	6,40

13. Minority interests

The minority interests refer to a holding of 45.9% in REALTECH Japan Co., Ltd., Tokyo, Japan, which was founded in collaboration with Nihon Unisys and Microsoft Japan in 2002 and has been fully consolidated since January 1, 2005.



14. Income taxes

The income taxes item shown in the income statement concerns the following:

	2006	2005
	TEUR	TEUR
Current tax expense	1.745	900
Deferred tax expense (net)	435	319
Tax expense	**2.180**	**1.219**

The Group's income taxes are reconciled in the following table. The corporation tax rate to be applied amounts to 25% plus the solidarity surcharge of 5.5%. The Group must also make trade tax payments in the amount of 13.5%. This amounts to an expected income tax liability of 39.9%.

	2006	2005
	TEUR	TEUR
Expected tax expense	1.675	957
IRAP (Italy)	459	392
Tax rate difference/measurement differences (domestic)	0	(93)
Tax rate difference/measurement differences (abroad)	46	(37)
Tax expense	**2.180**	**1.219**

The tax provisions of EUR 919 thousand (previous year: EUR 993 thousand) exclusively involve current income taxes payable.

The amount of taxes receivable of EUR 206 thousand (previous year: EUR 454 thousand) represents total current income taxes receivable.

Deferred tax assets and liabilities are offset if they concern the same taxation authority.

Accordingly, they are shown in the balance sheet as follows:

	31.12.2006	31.12.2005
	TEUR	TEUR
Deferred taxes receivable (deferred tax assets)	517	879
Taxes payable (deferred tax liabilities)	817	636

The deferred taxes must be assigned to the various balance sheet items as follows:

	31.12.2006	31.12.2005
	TEUR	TEUR
Tax loss carryforwards	98	465
Goodwill	304	414
Other provisions	80	0
Others	35	0
Deferred tax assets	**517**	**879**

Deferred tax assets result from losses carried forward in Italy and Portugal, the tax effect of which has been capitalized, as well as from differences in measuring goodwill.

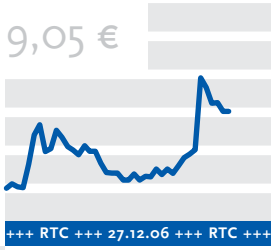
	31.12.2006	31.12.2005
	TEUR	TEUR
Fixed assets	502	485
Securities	265	151
Production orders	50	0
Deferred tax liabilities	**817**	**636**

Deferred tax liabilities are essentially based on differences in the measurement of property, plant, and equipment, especially in the case of buildings.

15. Provisions

Provisions changed as follows in fiscal year 2006:

	01.01.2006	Usage/ write-back	Allocation	31.12.2006
	TEUR	TEUR	TEUR	TEUR
Provisions for employees	2.595	1.362	1.324	2.557
Vacation provisions	2.015	1.446	1.220	1.789
Bonuses and revenue participation	1.884	1.884	2.919	2.919
Legal and consulting charges	209	200	221	230
Outstanding incoming invoices	293	158	185	320
Salaries and severance payments	171	171	214	214
Others	257	132	112	237
	7.424	**5.353**	**6.195**	**8.266**



In accordance with legal regulations, a provision in the amount of EUR 1,734 thousand has been established in the provisions for employees (previous year. EUR 1,779 thousand). The provision is measured in the amount of one month's wages per year of employment.

16. Liabilities

The residual terms and collateralization of liabilities can be seen in the following overview:

	Residual Term				
	Up to one year 31.12.2006	More than 5 years 31.12.2006	Total amount 31.12.2006	Type of collateralization	31.12.2005
	TEUR	TEUR	TEUR		TEUR
Trade payables	1.768	-	1.768	Usual retention of title	1.610
Other liabilities	2.145	-	2.145	-	1.921
- in the context of social security	124	-	124	-	412
	3.913	**-**	**3.913**	**-**	**3.531**

Other liabilities include sales tax, withholding tax, and wage tax liabilities in the amount of EUR 1,497 thousand (previous year: EUR 1,326 thousand).

17. Deferred income

The deferred income essentially involves software maintenance contracts. The average term of contracts is 12 months.

18. Revenues

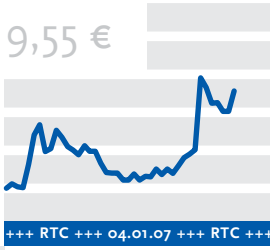
The revenues item shows the fees charged to customers for deliveries and services – minus sales deductions and discounts. The breakdown of revenues by business areas is determined from segment reporting.

19. Segment reporting

Segment reporting at the REALTECH Group is carried out in accordance with IAS 14. Segmentation is carried out for the purpose of internal Group control and reporting, in accordance with the products and services it offers. These financial statements define the consulting and software business segments as the primary report format for segment reporting.

The figures in the following overviews have been taken from internal reporting, used by the company's essential decision-makers for management purposes.

	Consulting		Software	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	TEUR	TEUR	TEUR	TEUR
External revenue	**42.948**	**39.773**	**11.432**	**10.274**
Segment income	1.770	1.805	1.381	(869)
Unallocated expenses and income				
Income from operations				
Interest expense				
Interest				
Net income from associates				
Income from financial investments and securities				
Current income				
Income before taxes (and minority interests)				
Income taxes				
Minority interests				
Net income				
Segment assets	19.050	19.502	8.287	8.488
Unallocated corporate assets				
Consolidated assets				
Segment liabilities	11.158	9.727	2.966	2.586
Unallocated corporate liabilities				
Consolidated liabilities				
Investments	502	898	133	239
Depreciation	1.077	1.131	286	301
Non- cash expenses other than depreciation	378	903	100	240



Total		Group	
31.12.2006	31.12.2005	31.12.2006	31.12.2005
TEUR	TEUR	TEUR	TEUR
54.380	**50.047**	**54.380**	**50.047**
3.151	936	3.151	936
		580	752
		3.731	**1.688**
		7	7
		464	387
		0	122
		102	132
		(91)	76
		4.199	**2.398**
		2.180	1.219
		(117)	(68)
		1.902	**1.110**
27.337	27.990	27.337	27.990
		32.783	28.684
		60.120	**56.674**
14.124	12.313	14.124	12.313
		817	637
		14.941	**12.950**
635	1.137	635	1.137
1.363	1.432	1.363	1.432
478	1.143	478	1.143

Secondary segment information

	External sales		Carrying amount Segment assets		Investments in intangible assets and property, plant and equipment	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Germany	23.079	21.653	43.107	40.200	349	843
Rest of Europe	22.263	21.058	12.808	13.296	230	168
USA	3.389	2.483	1.173	842	24	10
Asia-Pacific	5.649	4.853	3.032	2.336	32	116
	54.380	**50.047**	**60.120**	**56.674**	**635**	**1.137**

20. Other operating expenses

This item essentially contains expenses for rent and leasing.

21. Other operating income

The other operating income particularly involves rental income.

22. Net interest

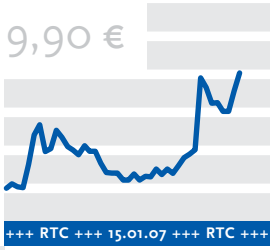
Net interest essentially consists of interest income for fixed-term deposits and interest-bearing securities. Interest income amounted to EUR 464 thousand. Interest expense was EUR 7 thousand.

Other information

23. Consolidated statements of cash flows

The consolidated statements of cash flows is prepared in accordance with IAS 7 and, separated into cash inflows and outflows, shows the development of cash flows generated from operating, investing, and financing activities. The cash flow is determined, using the indirect method, from the consolidated financial statements of REALTECH AG.

The cash involved in the consolidated statements of cash flows comprises all cash and cash equivalents presented in the balance sheets, i.e. cash in hand, checks, and bank balances (provided they are available within three months). The cash is not subject to any restrictions.



24. Earnings per share

According to IAS 33, earnings per share are determined from the consolidated earnings after tax and the average number of outstanding shares during the year. The option program in 2001 and the convertible bond programs in 2002 to 2006 gave rise to the following dilution effects on December 31, 2005 and on December 31, 2006:

	2006	2005
Net income	EUR 1.902.409	EUR 1.110.399
Average number of shares outstanding – basic	5.173.452 Shares	5.092.452 Shares
Average number of shares outstanding – diluted	5.632.452 Shares	5.312.452 Shares
Earnings per share – basic	EUR 0,37	EUR 0,22
Earnings per share – diluted	EUR 0,34	EUR 0,21

The dilution effect is essentially due to the conversion rights for bonds.

25. Other financial obligations

There are other financial obligations arising from rent and leasing agreements. These obligations are presented in the following overview:

	TEUR
2007	2.637
2008	2.192
2009	1.690
2010	1.262
2011	1.276
2012 and following years	3.794
	12.851

Rental and leasing expenses were EUR 1,815 thousand in the year under review (previous year: EUR 1,998 thousand). Please refer to point 26, “Special-purpose entity”.

26. Special-purpose entity

The second part of REALTECH's administrative building in Walldorf, the property in Industriestrasse 41, was constructed by PUDU Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Walldorf KG, Düsseldorf. As part of a property leasing agreement, REALTECH has rented the building for a period of 15 years. The rental period began on June 1, 2002. The company has a right to acquire the building. PUDU Grundstücks-Vermietungsgesellschaft is a special-purpose entity as defined by SIC 12.

As a result of applying the interpretation to this company, the REALTECH Group is not considered to be the company's primary beneficiary. The Group's obligations in connection with the leasing agreement are part of the minimum rent payments from leasing agreements listed under "Other financial obligations". These amount to EUR 7,281 thousand from December 31, 2006 up to the end of the term of the agreement. No other obligations or risks of loss result from the leasing agreement with PUDU Grundstücks-Vermietungsgesellschaft.

27. Bodies of the company

Supervisory Board

Dieter Matheis (Chairman)
Management consultant

- Supervisory Board (Chairman) of SAPERION AG, Berlin
- Supervisory Board (Chairman) of SNP Schneider-Neureither & Partner AG, Heidelberg
- Supervisory Board of Heiler Software AG, Stuttgart
- Supervisory Board (Chairman) of Cybio AG, Jena, as of September 30, 2006
- Supervisory Board of Catenic AG, Bad Tölz, as of November 2, 2006

Richard Roy (Deputy Chairman)
Management consultant

- Vice President of the Supervisory Board of Swisscom AG, Bern/Switzerland
- Supervisory Board (Chairman) of Balda AG, Bad Oeynhausen
- Supervisory Board (Deputy Chairman) of Premiere AG, Unterföhring
- Supervisory Board of Update AG, Vienna/Austria

Norbert Schwerber
Auditor and tax advisor

- Supervisory Board (Chairman) of Nieding + Barth Rechtsanwaltsaktiengesellschaft, Frankfurt
- Supervisory Board (Chairman) of VEDACON AG, Montabaur
- Supervisory Board (Chairman) of Systaic AG, Büttelborn
- Supervisory Board of b.i.s. börsen-informations-systeme AG, Rimpar
- Supervisory Board of Cosmetic Service AG, Eppertshausen
- Supervisory Board of Zoffel/Steiger/Holding AG, Wiesbaden
- Advisory Board of Hugo Görner GmbH, Aalen, as of Dezember 31, 2006

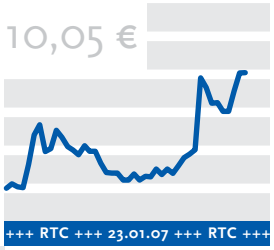
Executive Board

Nicola Glowinski (Chairman)
Dr. Rudolf Caspary (technology)

Resigned from the Executive Board:
Jürgen Zahn (finance), on January 31, 2007

28. Remuneration of the Executive and Supervisory Boards

Remuneration received by the Executive Board in fiscal year 2006 totaled EUR 1,852 thousand (compared to EUR 1,213 thousand in the previous year). The fixed portion (including non-monetary benefits from company cars and social security allowances) was EUR 525 thousand (previous year: EUR 803 thousand), while variable remuneration totaled EUR 1,069 thousand (previous year: EUR 410 thousand) and share-based remuneration was EUR 258 thousand. A total of 150,000 options were granted



in fiscal year 2006 (previous year: 45,000) at an exercise price of EUR 8.80 (previous year: EUR 6.97).

Remuneration received by the Supervisory Board in fiscal year 2006 totaled EUR 138 thousand (previous year: EUR 65 thousand). No variable remuneration was paid. No consulting services were provided in the year under review (previous year: EUR 2 thousand).

29. Directors' dealings

Changes in numbers of REALTECH stock options and convertible bonds held by members of the Executive Board of REALTECH AG in fiscal year 2006 can be seen in the following table:

	Dr. Rudolf Caspary	Nicola Glowinski	Jürgen Zahn
On January 1, 2006	45.750	55.000	30.000
Additions	40.000	70.000	40.000
Disposals	24.750	22.000	0
On December 31, 2006	**61.000**	**103.000**	**70.000**

Changes in numbers of REALTECH shares held by members of the Executive Board of REALTECH AG in fiscal year 2006 can be seen in the following table:

	Dr. Rudolf Caspary	Nicola Glowinski	Jürgen Zahn
On January 1, 2006	0	0	0
Additions	19.000	22.000	0
Disposals	4.000	0	0
On December 31, 2006	**15.000**	**22.000**	**0**

As in the previous year, the members of the Supervisory Board did not hold any REALTECH shares or REALTECH stock options or convertible bonds in fiscal year 2006.

30. Related party disclosures

According to IAS 24, individuals or companies which control the REALTECH Group or are controlled by the Group must be disclosed if they are not already included in REALTECH AG's consolidated financial statements as a consolidated company. Control is considered to exist if a shareholder holds more than half of voting rights in REALTECH AG or if, in accordance with provisions in the Articles of Association or contractual agreements, is able to steer the financial and business policies of REALTECH AG's management.

In addition, the disclosure obligation according to IAS 24 covers transactions with associates and with individuals who exercise a significant influence over the financial and operational decisions of the REALTECH Group, including close family members and intermediary companies.

Here, a significant influence over the financial and business policies of the REALTECH Group may be based on an interest in REALTECH AG of 20% or more, a place on the Supervisory Board or Executive Board of REALTECH AG, or some other key management position.

In fiscal year 2006, no companies of the REALTECH Group performed transactions that require reporting with members of the Supervisory or Executive Boards of REALTECH AG or with other members of management in key positions or companies in which these individuals are represented on management or supervisory committees. This is also true of the close family of this group of individuals.

31. Employees

The REALTECH Group counted a total of 571 employees on December 31, 2006, while the figure on December 31, 2005 was 535. As an annual average, the company employed 555 people in 2006, and 543 the previous year.

32. Auditor fees in accordance with Section 314 paragraph 1 no. 9 of the German Commercial Code (Handelsgesetzbuch, HGB)

The auditor fees for the individual and consolidated financial statements of REALTECH AG amounted to EUR 57 thousand (previous year: EUR 55 thousand).

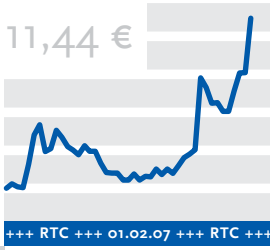
33. Data in accordance with Section 160 paragraph 1 no. 8 of the Stock Corporation Act (Aktiengesetz, AktG)

No reports on the existence of interests were submitted to REALTECH AG in fiscal year 2006.

34. Declaration with respect to the German Corporate Governance Code in accordance with Section 161 of the Stock Corporation Act

On November 30, 2006 the Executive and Supervisory Boards submitted their fourth compliance declaration in accordance with Section 161 of the Stock Corporation Act and made it permanently available to shareholders on the company's Web site.

Walldorf, February 20, 2007
REALTECH AG
The Executive Board



Auditors' Opinion

We have audited the consolidated financial statements prepared by the REALTECH AG, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a, Paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a, Paragraph 1 HGB (and supplementary provisions of the shareholder agreement/articles of incorporation) and full IFRS and give the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Heidelberg, February 20, 2007

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft

Gerstlauer
Wirtschaftsprüfer

Appel
Wirtschaftsprüfer