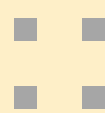


# Consolidated Financial Statements



ASSETS	Notes	31/12/2001 EUR	31/12/2000 EUR
<b>Current assets</b>			
Cash and cash equivalents	(5)	6.947.856	3.842.471
Marketable securities	(9)	14.119.654	20.019.672
Trade accounts receivable	(6)	19.183.921	13.237.057
Accounts receivable due from related parties		o	o
Inventories		o	o
Deferred taxes	(12)	o	415.598
Prepaid expenses and other current assets	(7)	3.491.133	3.833.480
<b>Total current assets</b>		<b>43.742.564</b>	<b>41.348.278</b>
<b>Noncurrent assets</b>			
<b>Tangible assets</b>	(11)	11.393.182	11.186.045
Property, plant and equipment		8.677.318	8.510.076
Technical equipment and machines		16.095	71.828
Other equipment, operating and office equipment		2.699.769	2.604.141
Payments on account and assets under construction		o	o
<b>Intangible assets</b>	(11)	2.273.215	1.993.324
Concessions, industrial rights and similar rights and assets and licences in such rights and assets		542.569	362.812
Software manufactured in-house		1.730.254	1.630.098
Payments on account		392	414
<b>Financial assets</b>		1.567.598	4.399.878
Interests in associates	(8)	o	o
Loans to associates		o	118.191
Investment securities	(9)	1.567.598	4.281.687
Other loans		35.924	28.835
Goodwill		4.118.688	5.260.970
Deferred taxes	(12)	778.808	524.550
Other assets		o	9.767
<b>Total noncurrent assets</b>		<b>20.167.415</b>	<b>23.403.369</b>
<b>Total assets</b>		<b>63.909.979</b>	<b>64.751.647</b>

Negative figures are shown in parentheses

## Assets

# Consolidated Balance Sheets



LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31/12/2001 EUR	31/12/2000 EUR
<b>Current liabilities</b>			
Current portion of capital lease obligations		0	0
Short term debt and current portion of long term debt	(17)	766.938	1.720
Trade accounts payable		2.145.591	1.726.210
Accounts payable to related parties		0	0
Advance payment received		0	0
Accrued expenses	(15)	5.904.571	4.021.249
Deferred revenues	(16)	400.863	220.311
Income tax payable	(14)	1.742.456	2.650.942
deferred taxes	(12)	173.533	0
Other current liabilities	(13)	4.138.343	3.851.496
<b>Total current liabilities</b>		<b>15.272.295</b>	<b>12.471.928</b>
<b>Noncurrent liabilities</b>			
Long term debt	(17)	4.601.627	6.135.503
Capital lease obligations		0	0
Deferred revenues		0	0
Deferred taxes		0	0
Other liabilities		0	0
Pension accrual		0	0
<b>Total noncurrent liabilities</b>		<b>4.601.627</b>	<b>6.135.503</b>
<b>Total liabilities</b>		<b>19.873.922</b>	<b>18.607.431</b>
Minority interest		0	0
<b>Shareholders' equity</b>			
Share capital	(18)	6.467.414	6.467.414
Additional paid-in capital		36.798.418	36.798.418
Treasury stock	(19)	(18.033)	(11.491)
Retained earnings		934.197	3.073.647
Accumulated other comprehensive income		(145.939)	(183.772)
<b>Total shareholders' equity</b>		<b>44.036.057</b>	<b>46.144.216</b>
<b>Total liabilities and shareholders' equity</b>		<b>63.909.979</b>	<b>64.751.647</b>

## Liabilities and Shareholders' Equity

# Consolidated Financial Statements

## Consolidated Statements of Income

	2001 EUR	2000 EUR
Revenues	56,456,036	45,152,714
Costs of revenues	37,404,476	27,190,045
	19,051,560	17,962,669
Research and development	2,958,406	2,019,016
Selling and marketing expenses	12,104,438	13,809,032
General and administrative expenses	2,797,352	1,460,124
Other operating expenses	442,484	335,658
Other operating income	2,204,114	2,842,995
Amortization (and impairment) of goodwill	1,142,282	1,182,177
Depreciation and amortization	0	0
	1,810,712	1,999,657
Interest income/expenses	693,394	687,386
Income from investments and participations	0	0
Income/expenses from associated companies	0	(43,780)
Depreciation of investments	2,714,926	2,353,822
Foreign currency exchange gains/losses	0	0
Other income/expenses	0	0
	(210,820)	289,441
Income taxes	1,928,630	1,245,366
Other income/expenses	0	0
	(2,139,450)	(955,925)
Minority interest	0	42,600
	(2,139,450)	(913,325)
Net income per share (basic)	(0.42)	(0.18)
Net income per share (diluted)	(0.42)	(0.18)
Weighted average shares (basic)	5,080,197	5,054,426
Weighted average shares (diluted)	5,080,197	5,054,426

Negative figures are shown in parentheses

# Consolidated Statements of Cash Flows



	2001 EUR	2000 EUR
<b>Net income</b>	<b>(2,139,450)</b>	<b>(913,325)</b>
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation of noncurrent assets	6,318,387	2,986,009
Change in minority shares	o	(59,822)
Income from associates	o	43,780
<i>Change in assets and liabilities:</i>		
Change in accrued expenses	974,836	2,486,999
Change in deferred taxes	334,874	(1,082,953)
Change in other assets	(5,594,751)	(7,258,558)
Change in other liabilities	886,780	1,437,389
<b>Net cash from operating activities</b>	<b>780,676</b>	<b>(2,360,482)</b>
Investment in noncurrent assets	(3,100,526)	(5,808,847)
Asset disposals	152,321	254,869
Purchase of financial assets	6,090,881	(2,497,452)
<b>Net cash from investing</b>	<b>3,142,676</b>	<b>(8,051,430)</b>
Change in long term borrowing	(768,658)	(9,997,182)
Increase in additional paid-in capital	o	15,057
Purchase of treasury stock	(6,543)	(9,216)
<b>Net cash from financing activities</b>	<b>(775,201)</b>	<b>(9,991,341)</b>
<b>Change in cash and cash equivalents</b>	<b>3,148,151</b>	<b>(20,402,522)</b>
Currency translation	(42,766)	(56,502)
Cash and cash equivalents at the beginning of the year	3,842,471	24,302,226
Cash and cash equivalents at the end of the year	6,947,856	3,842,471

Negative figures are shown in parentheses

# Consolidated Financial Statements



	Common stock	Share capital
<b>Dezember 31, 1998</b>	<b>2,000,000</b>	<b>5,112,919</b>
Stock splitt 1:2	2,000,000	
Net income		
Other comprehensive income		
Unrealized income on securities transactions		
Translation adjustments		
Capital reduction due to conversion to Euro/apropriation to additional paid-in capital		(32,919)
Inflow of capital from the IPO	1,000,000	1,270,000
Capital increase from non-cash contributions	13,440	17,069
Employee stock option programme		
Purchase of treasury stock	(1,780)	
<b>Dezember 31, 1999</b>	<b>5,011,660</b>	<b>6,367,069</b>
Net income		
Other comprehensive income		
Unrealized income on securities transactions		
Translation adjustments		
Capital increase from non-cash contributions	79,012	100,345
Purchase of treasury stock	(7,210)	
<b>Dezember 31, 2000</b>	<b>5,083,462</b>	<b>6,467,414</b>
Net income		
Other comprehensive income		
Unrealized income on securities transactions		
Translation adjustments		
Purchase on treasury stock	(5,118)	
<b>Dezember 31, 2001</b>	<b>5,078,344</b>	<b>6,467,414</b>

# Consolidated Statements of Changes in Shareholders' Equity



	Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income	Shareholders' equity	Comprehensive Income
	(21,653,211)	o	1,836,665	(7,136)	(14,710,763)	792,678
			2,150,307		2,150,307	2,150,307
				(188,580)	(188,580)	(188,580)
				22,199	22,199	22,199
	32,919					
	50,690,105				51,960,105	
	877,766				894,835	
	67,905				67,905	
		(2,275)			(2,275)	
	30,015,484	(2,275)	3,986,972	(173,517)	40,193,733	1,983,926
			(913,325)		(913,325)	(913,325)
				46,978	46,978	46,978
				(57,233)	(57,233)	(57,233)
	6,767,878				6,868,223	
	15,056	(9,216)			5,840	
	36,798,418	(11,491)	3,073,647	(183,772)	46,144,216	(923,580)
			(2,139,450)		(2,139,450)	(2,139,450)
				80,599	80,599	80,599
				(42,766)	(42,766)	(42,766)
		(6,542)			(6,542)	
	36,798,418	(18,033)	934,197	(145,939)	44,036,057	(2,101,617)

Negative figures are shown in parentheses

# Notes to the Consolidated Financial Statements



## 1. Business activities

REALTECH AG manages and supports 13 subsidiaries specializing in technology consulting, hosting of SAP and e-commerce solutions plus software development for applications and systems management.

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

The company's headquarters are in Walldorf, Baden, Federal Republic of Germany.

## 2. Significant accounting and consolidation policies

The German consolidated companies keep their accounts and documentation in accordance with the provisions of commercial law, which reflect generally accepted accounting policies in Germany. Foreign consolidated companies keep their accounts and documentation in accordance with the local legal provisions. German commercial law and the local accounting provisions for foreign consolidated companies, excluding subsidiaries located in the USA, differ considerably from US Generally Accepted Accounting Principles (US GAAP) in a number of respects. All necessary adjustments have been made in order to present the annual financial statements in accordance with US GAAP.

All amounts in the annual financial statements are stated in euros.

The parent company, as a listed company, took advantage on the balance sheet date of the opportunity to prepare exempting consolidated financial statements according to international accounting provisions in accordance with section 292a of the HGB (Handelsgesetzbuch – German Commercial Code).

## a) Consolidation policies

All subsidiaries which are under the legal or actual control of REALTECH AG are included in the consolidated financial statements. Equity interests which allow a significant influence to be exercised on the company – typically companies in which realTech holds between 20% and 50% of voting rights – are carried according to the equity method. Companies in which REALTECH AG holds an equity interest of less than 20% are carried at acquisition cost.

Capital consolidation of the subsidiaries included in the consolidated financial statements was performed according to the purchase accounting method in accordance with APB 16 by eliminating acquisition costs against the proportionate stockholders' equity of the subsidiaries accruing to the parent company at the time of acquisition or of first-time consolidation. The difference between the acquisition costs and the proportionate stockholders' equity is allocated in whole or in part to the assets of the subsidiaries. Any remaining difference on the assets side of the balance sheet is capitalized as goodwill and amortized over the expected useful life. However, the difference resulting from the purchase of the interests in REALTECH system consulting GmbH has been eliminated against additional paid-in capital.

Intercompany balances between fully consolidated companies are consolidated by eliminating receivables against liabilities.

Current and noncurrent assets do not comprise any inter-company profits arising from intragroup deliveries or services.

All significant income and expenses within the group were eliminated in consolidation. These were mainly income and expenses arising from intragroup deliveries or services, and interest income and expenses from loan agreements and cost allocations.

Negative figures are shown in parentheses



#### **b) Companies consolidated**

The consolidation group 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%  
RAVTECH Consultoria de Sistemas Sociedade Unipessoal Lda, Lisbon, Portugal, 100%  
REALTECH UK Ltd., Bracknell, England, 100%  
REALTECH Inc., Newtown Square, USA, 100%  
REALTECH Australasia Pty.Ltd., North Sydney, Australia, 100%  
REALTECH Ltd., Auckland, New Zealand, 100%  
REALTECH system consulting Pte.Ltd., Singapore, 100%

Of the domestic subsidiaries in the legal form of a corporation, REALTECH system consulting GmbH, Walldorf, fulfilled the requirements stipulated in § 264 paragraph 3 of the HGB (Handelsgesetzbuch – German Commercial Code) for utilizing the exemption regulation. The company thus refrains from disclosing the annual financial statement documents.

#### **c) Consolidation date**

The consolidated financial statements were prepared on the date of the annual financial statements of the parent company. The subsidiaries included in consolidation prepared their statements on the same date.

#### **d) Report format**

Companies listed on the Neuer Markt are compelled to issue a structured quarterly report for the quarter beginning on July 1st, 2001. The aim of this simplification of the report

format by Deutsche Börse AG is to make important company data visible at a glance and easier to compare. REALTECH has also used this format for its balance sheet, statement of income, and statement of cash flows in its annual financial statements. Due to the fact that they are extremely low, currency profits and losses have not been disclosed separately.

#### **e) Accounting policies**

##### **Sales recognition**

Sales and income from customer projects are recognized at the time of performance of the service. Revenues from the sale of standard software not sold as part of comprehensive customization projects are recognized when the ownership of the software is transferred to the buyer. Sales revenues from maintenance agreements are recognized pro rata temporis over the term of the agreement.

Income and related expenses are recognized independently of the underlying payment flows.

##### **Product-related expenses**

Expenses for advertising and sales promotion, research and development as well as sales-related expenses are expensed against income at the time they are incurred

##### **Current assets and liabilities**

All assets and liabilities due within the normal business cycle of one year are disclosed under current assets and liabilities.

##### **Cash and cash equivalents**

Cash and cash equivalents comprise existing bank balances, checks and cash in hand as well as fixed-term deposits that can be converted into cash in the short term and have a residual term of less than three months.

##### **Trade accounts receivable**

Trade accounts receivable are carried at their principal value less write-downs.

# Notes to the Consolidated

## Financial Statements



Specific write-downs for bad debts are calculated individually. Adequate global write-downs are performed to cover the general credit risk.

### Other assets

Other assets are carried at their principal value or the lower value to be applied at the balance sheet date.

### Investment securities

Securities are valued in accordance with SFAS 115 at their fair value on the balance sheet date. Unrealized gains and losses on securities purchased for immediate sale (trading) are netted. Fluctuations in the value of securities that are neither specifically intended to remain part of the company's assets nor were purchased for the purpose of immediate resale (available for sale), are not netted but are disclosed under a separate stockholders' equity item if a temporary diminution in value is anticipated.

### Equity interests

Equity interests are carried at their principal value or at the lower value to be applied at the balance sheet date.

### Property, plant and equipment

Property, plant and equipment is carried at acquisition cost less regular straight-line depreciation. Depreciation charges and special items based solely on tax regulations are not carried. Movable property, plant and equipment has a useful life of between three and ten years. Buildings are subject to straight-line depreciation over a 40-year period.

### Intangible assets

Purchased intangible assets are carried at acquisition cost and amortized over a useful life of between three and five years using the straight-line method.

Goodwill arising from capital consolidation is capitalized and amortized over a period of six years. Goodwill is reviewed regularly for impairment on the basis of estimated future cash flows.

The costs of developing in-house software products that are to be sold in the future and that are incurred after the preliminary design phase and after the technical and economic feasibility of the product has been demonstrated, are capitalized in accordance with SFAS 86. These capitalized costs are amortized according to the straight-line method over the expected useful life of three years beginning at the time the costs are capitalized. The asset item is reviewed regularly for impairment on the basis of estimated future cash flows.

### Leasing

Property, plant and equipment and intangible assets also comprise leased buildings, software and vehicles. Due to the terms of the underlying capital lease agreement, these are attributable to the group as the beneficial owner in accordance with SFAS 13. The related liabilities are also carried. Depreciation and amortization are charged on the basis of the term of the lease.

### Liabilities

The liabilities disclosed in the consolidated balance sheet are disclosed at their redemption values.

### Accruals

Accruals are set up where an obligation to a third party exists, utilization is likely, and the probable amount of the accrual to be set up can be estimated reliably.

### Tax accruals

Income taxes are calculated corresponding to actual tax liabilities and tax refund claims in accordance with SFAS 109. Deferred tax assets are set up for the future tax effects of temporary differences. They are the result of differences arising between carrying amounts in the financial statements, the tax returns, and the capitalization of tax loss carried forward. Deferred tax assets and liabilities are calculated using the tax rates and laws applicable at the time of calculation. German companies are subject to a tax rate of 39.9%. The deferred tax assets carried are devalued to the value at which the future realization of the tax benefit is more probable than the decline in the loss carried forward.



#### **Comprehensive Income**

SFAS 130 "Reporting Comprehensive Income" requires that companies applying this standard report in their annual financial statements on all changes to stockholders' equity within a business period. Companies do not have to report on changes to stockholders' equity resulting from an injection of capital by stockholders or a distribution of profits. The company has decided to report on comprehensive income in its statement of changes in consolidated stockholders' equity.

#### **Financial derivatives**

SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" requires that each derivative instrument is recognized either as an asset or a liability in the balance sheet at its fair value. It also requires that changes in the usual market measurement of the derivatives which have an effect on the current result of the company are disclosed, unless special hedging accounting is applied.

In 1999, the company concluded cash flow hedges in order to hedge against interest risks. These hedging transactions relate to booked financial transactions. Only marketable instruments with sufficient market liquidity are used. Gains or losses from this business activity are disclosed under "Other comprehensive income".

#### **f) Currency translation**

Currency translation is performed in accordance with SFAS 52. The functional currency of all foreign subsidiaries is the local currency. When translating financial statements in foreign currencies into the group currency, assets and liabilities are translated at the rate prevailing at the balance sheet date. Stockholders' equity is calculated on the basis of historical rates. The average foreign exchange rate for the year is applied when translating items in the statement of income. Currency differences arising from the different rates applied in converting items in the balance sheet and the statement of income are disclosed under "Other comprehensive income".

#### **g) Estimates and assumptions for the preparation of the consolidated financial statements**

A certain level of estimates and assumptions are required in the consolidated financial statements. These affect the assets and liabilities carried in 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.

#### **h) New accounting provisions**

In June 2001, the Financial Accounting Standards Board (FASB) passed SFAS 143, "Accounting for Asset Retirement Obligations". This new standard regulates how to account for and report liabilities from the shutdown or sale of property, plant, and equipment and the associated shutdown costs. It is applied to legal obligations from the shutdown or sale of property, plant, or equipment that have arisen as a result of the purchase, creation, development, and/or usual use of the asset. Liabilities must be capitalized in the period in which the obligations are incurred to the extent that a reasonable estimate of fair value can be made. At the same time, the book value of the associated property, plant, or equipment must be increased by the same amount. The added amount is depreciated again over the remaining life of the asset. At the end of each reporting period, the liability is adjusted to its current cash value and any changes treated as income or expense. Any gain or loss on settlement is recognized. SFAS 143 must be applied at the latest by the fiscal year beginning on October 1st, 2002. REALTECH does not expect the application of SFAS 143 to have any essential effects on its assets.

In July 2001, the FASB passed SFAS 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets". According to SFAS 141, all company mergers initiated and completed after June 30th, 2001 must be accounted for in line with the purchase method. According to SFAS 142, goodwill and other intangible assets with unrestricted useful lives no longer have to be depreciated, but must be checked for value diminution at least once a year in line with the requirements of SFAS 142. Intangible assets with restricted useful lives must, according to SFAS 142, be depreciated to the estimated net book value over the anticipated useful life.

# Notes to the Consolidated Financial Statements



When this is applied for the first time, the goodwill must be checked to determine whether the value has decreased. Any necessary depreciation will be shown separately in the statement of income as transition-based one-off effects.

On December 31st, 2001, REALTECH had goodwill to be depreciated of €4,119,000 that is subject to the rules of SFAS 141 and 142. For the fiscal years 2001 and 2000, the regular depreciation of goodwill amounted to €1,142,000 and €1,182,000 respectively. For the fiscal year 2002, REALTECH does not expect application of these accounting standards to give rise to any depreciation of goodwill.

### 3. Segment reporting

The company is organized according to the products and services it offers. Within the meaning of segment reporting according to SFAS 131, the company performed its business activities in two basic business areas in the year under review. These were software products and technology consulting.

The data in the following overviews has been taken from internal reporting, used by the company's essential decision-makers for management purposes. The company's reporting does not allow for assets to be assigned to the business areas for the management.

	2001 T EUR	2000 T EUR
<b>Sales to third parties</b>		
Technology consulting	50,558	39,500
Software products	5,898	5,653
	56,456	45,153
<b>EBIT</b>		
Technology consulting	1,414	1,372
Software products	397	628
	1,811	2,000

Sales accounting for more than 10% of consolidated sales were generated with the following customer in fiscal year 2001:

	2001 %	2000 %	1999 %
Customer A	17.2	18.1	23.9

### 4. Income taxes

The income tax expense is composed of corporation taxes, trade taxes and deferred income taxes as follows:

	2001 TEUR	2000 TEUR
<b>Current income taxes</b>		
Germany	24	341
Other countries	1,772	2,054
	1,796	2,395
<b>Deferred income taxes</b>		
Germany	62	(939)
Other countries	71	(210)
	133	(1,149)
	1,929	1,245

The group's income taxes are reconciled in the following table. The corporation tax rate to be applied amounts to 25% (compared to 30% in the previous year) 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% (compared to 45.2% in the previous year).

	2001 TEUR	2000 TEUR
Expected tax expense	(84)	131
Tax rate difference (other countries)	802	1,181
Tax rate difference (Germany)	87	(357)
Amortization of goodwill	186	236
Depreciation of InterClubNet	1,083	-
Others	(145)	54
	1,929	1,245



### 5. Cash and cash equivalents

Cash and cash equivalents were broken down as follows:

	2001	2000
	TEUR	TEUR
Overnight money	19,445	13,470
Current accounts	261	233
	19,184	13,237

### 6. Trade accounts receivable

	2001	2000
	TEUR	TEUR
Trade accounts receivable	205	588
Value adjustments	6,743	3,254
	6,948	3,842

### 7. Prepaid expenses and other current assets

	2001	2000
	TEUR	TEUR
Receivables from financial authorities	2.752	2.853
Advance wage and travel cost payments	219	158
Interest receivable	14	337
Employee loans	8	15
Prepaid expenses	346	274
Other	152	196
	3.491	3.833

The receivables from financial authorities contain a tax refund claim from income tax in Italy of €1,761,000. The company granted loans totaling €99,000 in fiscal year 1998 to purchase shares as part of the employee share program. €91,000 of this was repaid by the end of the fiscal year 2001.

### 8. Interests in associates

An interest of 49% is still held in E-City S.r.l, Milan, by REALTECH Italia S.p.A.

### 9. Investment securities

The proceeds from the initial public offering – insofar as they are not required to finance organic growth – have been invested in part in interest-bearing securities until further equity interests are acquired. The group has therefore classified these securities in accordance with SFAS 115 as available for sale.

By contract of March 28th, 2000, the group purchased 2,005,681 shares in InterClubNet plc. This corresponds to a 8.35% interest in share capital of InterClubNet plc. These shares were purchased against the issue of 58,072 new no-par value shares. By contract of December 1st, 2000, REALTECH granted a private investor an option to purchase shares in InterClubNet plc. The base price is GBP 1.745 per share. The option for 501,421 shares has a cut-off date of August 14th, 2001 and the option for 1,504,260 shares has a cut-off date of August 14th, 2002. The option for 501,421 shares was not exercised by the purchaser on August 14th, 2001 and has thus expired.

By contract of January 21st, 2002, REALTECH AG sold its 8.35% interest (2,005,681 shares) in InterClubNet plc. for GBP 426,207.25. The resulting depreciation to the lower value to be applied was already taken into account on December 31st, 2001. The short-position of 1,504,260 shares has been transferred to the purchaser.

By contract of June 26th, 2000, REALTECH AG acquired 20,500 shares in GRAU Data Storage AG, Schwäbisch Gmünd, from a capital increase. This corresponds to a 5% interest in the share capital of GRAU Data Storage AG.

# Notes to the Consolidated

## Financial Statements



Trading securities do not exist. The investment securities item is broken down as follows:

	Acquisition costs 31,12,2001 TEUR	Fair Value 31,12,2001 TEUR	Unrealized Gains 2001 TEUR	Unrealized losses 2001 TEUR
Securities available for sale				
Floater	10,834	10,691	-	143
Other	3,388	3,429	41	-
	14,222	14,120	41	143
Share	1,568	-	-	-
	15,790	14,120	41	143

The annual general meeting of Grau DataStorage AG decided on March 19th, 2001 to increase the company's share capital in the context of increasing capital from business means by €1,590,000 from €410,000 to €2,000,000. The capital increase was entered in the commercial register on July 5th, 2001. The number of shares held by REALTECH AG thus increased from 20,500 to 100,000 shares.

On July 11th, 2001, the annual general meeting of GrauDataStorage AG resolved to implement a further capital increase to €2,848,459, which was entered in the commercial register on August 30th, 2001. REALTECH AG did not participate in this capital increase. The company's interest in the share capital of Grau DataStorage AG thus decreased from 5.00% to 3.51%.

### 10. Financial derivatives

One interest rate swap was concluded in 1999, with identical capital amounts, in order to hedge against the interest risk of the purchased floating notes (cash flow hedge). The interest rate swap had a term of up to July 1st, 2002. It was released on October 2nd, 2001 with no effect on income. The unrealized loss in the amount of €113,000 after taxes disclosed under equity on December 31st, 2000 and not recognized in income was revoked.

### 11. Intangible assets and property, plant and equipment

Changes in property, plant and equipment were as follows:

	2001 TEUR	2000 TEUR
Property, plant and equipment		
Acquisition costs		
Land, land rights and buildings	9,261	8,816
Technical equipment, operating and machines	22	91
Other equipment, operating and office equipment	4,730	3,970
	14,013	12,877
Cumulative depreciation	2,620	1,691
Thereof accounted for in the statement of income	1,261	1,027
	11,393	11,186

The manufacturing costs of software manufactured in-house were capitalized in accordance with SFAS 86 beginning in fiscal year 1996 and written down over a useful life of three years using the straight-line method.



Changes in intangible assets were as follows:

	2001 TEUR	2000 TEUR
<b>Intangible assets</b>		
<b>Acquisition costs</b>		
Concessions, industrial rights and assets and licenses in such rights and assets	934	495
Software manufactured in-house	3,884	2,852
Goodwill	6,858	6,858
Payments on account	-	4
	<b>11,676</b>	<b>10,209</b>
<b>Cumulative depreciation</b>	<b>5,284</b>	<b>2,955</b>
Therefore accounted for in the statement of income	2,342	1,959
	<b>6,392</b>	<b>7,254</b>

### 12. Deferred taxes

Changes in deferred taxes are illustrated in the following overview:

	2001 TEUR	2000 TEUR
<b>Deferred tax assets</b>		
Current (Germany)	130	547
Noncurrent (Germany)	805	1,194
Current (other countries)	48	140
Noncurrent (other countries)	33	35
	<b>1,016</b>	<b>1,916</b>
<b>Deferred tax liabilities</b>		
Current (Germany)	352	250
Noncurrent (Germany)	59	704
Current (other countries)	-	21
Noncurrent (other countries)	-	-
	<b>411</b>	<b>975</b>
<b>Current deferred tax assets, net</b>	<b>-</b>	<b>416</b>
<b>Noncurrent deferred tax assets, net</b>	<b>779</b>	<b>525</b>
<b>Current deferred tax liabilities, net</b>	<b>174</b>	<b>-</b>

Deferred tax assets result mainly from trade tax loss carried forward in the amount of €5,136,000 as of December 31st, 2001, the tax effect of which has been capitalized. The loss carried forward is regarded as unlimited in accordance with current German tax law. Existing losses carried forward for companies located abroad were not capitalized.

Deferred tax liabilities result mainly from the tax effect of capitalizing software manufactured in-house and the differences arising from the measurement of property, plant and equipment, particularly buildings.

### 13. Other current liabilities

The following amounts were disclosed under other current liabilities in the fiscal year:

	2001 TEUR	2000 TEUR
Wage tax	1,335	647
Sales tax	1,127	773
Social security	424	362
Remaining purchase price of acquired companies	403	913
Salaries	385	499
Withholding tax (WHT)	180	82
Contract leases (Italy)	101	207
Rent	-	110
Other	183	258
	<b>4,138</b>	<b>3,851</b>

### 14. Tax accruals

	2001 TEUR	2000 TEUR
Income Tax	1,727	1,904
Trade tax	11	552
Other	4	195
	<b>1,742</b>	<b>2,651</b>

# Notes to the Consolidated Financial Statements



## 15. Accruals

Accruals related mainly to accruals in the area of personnel, costs for creating annual reports and auditing as well as consulting charges. Other accruals are disclosed as follows:

	2001	2000
	TEUR	TEUR
Vacation accruals	2,010	1,412
Provisions for employees	1,842	805
Bonus/sales participation	1,168	986
Legal and consulting charges	173	116
Salaries/severance payments	154	117
Accruals for pending losses	-	187
Other	558	398
	5,905	4,021

In accordance with legal provisions, an accrual in the amount of €951,000 was set up to cover the possible departure of Italian employees from the company. The accrual is quantified in the amount of one month's wages per year of employment.

## 16. Deferred income

Deferred income in the amount of €250,000 was set up for software maintenance agreements which will be released over the average term of the agreements (twelve months).

## 17. Liabilities to banks

The group took out a loan with the IKB Deutsche Industriebank in the amount of €6,135,502.57 in 1999. The interest rate amounts to 3.75% p.a. The loan has a term of nine years and is covered by a property charge in the same amount. The loan will be repaid on March 31st and September 30th of each year, beginning in fiscal year 2001, each time in the amount of €383,000. The loan is currently valued at €5,369,000.

## 18. Capital stock and additional paid-in capital

The subscribed capital continues to amount to €6,467,414.04 and is divided into 5,092,452 no-par value shares.

## 19. Treasury stock

On June 7th, 2001, the stockholders authorized the company to buy back treasury stock of up to 10% of the share capital in the amount of €6,467,414.04. REALTECH did not make use of this in the fiscal year 2001.

REALTECH AG holds 14,108 of its own shares. This corresponds to an interest in the share capital of €17,917.16 (0.28%). In the fiscal year, 5,118 shares were purchased from departing employees at a price of €1.28 per share.

## 20. Authorized and authorized but unissued capital

The annual general meeting of April 1st, 1999 authorized the Managing Board to increase the subscribed capital against cash and/or non-cash contributions by a total of up to €3,175,000.00 up until April 1st, 2004 by issuing 2.5 million no-par value shares (authorized capital). The Managing Board and Supervisory Board are authorized to exclude stockholders' subscription rights. The authorized capital was used in the amount of €117,414.04 up to the accounting date.

The General Meeting also resolved a contingent capital increase in the amount of €63,500 for the purpose of granting options to subscribe to a total of 50,000 no-par value shares on one or more occasions up until April 1st, 2004. Please refer to note number 21 of the consolidated notes on the company's Stock Option Plan I.

The General Meeting of May 22nd, 2000 resolved a contingent capital increase in the amount of €571,500 for the purpose of granting options to subscribe to a total of 450,000 no-par value shares on one or more occasions up to May 22nd, 2005. Please refer to note number 22 of the consolidated notes on the company's Stock Option Plan II.

For the purpose of granting shares to the holders of bonds, the annual general meeting on June 7th, 2001 decided on a contingent capital increase of up to €2,598,707.02 by issuing up to 2,046,226 new securities. However, this was not entered in the commercial register due to formal concerns. The proposed decision will be presented again



at the next annual general meeting with a slight change in the formulation of the exclusion of subscription rights. The context will be essentially the same and will take into account the concerns of the register court.

### **21. Stock option plan I**

The company's stock option plan provides for the issue to members of the senior management of foreign subsidiaries of 50,000 free options to purchase no-par value shares of REALTECH AG. The option plan is limited to five years. Each option entitles the holder to purchase one no-par value share.

A manager's entitlement to a certain number of options depends on his/her contribution to the overall performance of the REALTECH group on the basis of consolidated profit targets for a fiscal year. Options can be exercised if

- the manager at least meets his/her profit targets,
- the average price of REALTECH shares on the date the option is to be exercised is higher than the issuing price or any other reference price, and
- the performance of REALTECH shares is at least equal to the performance of the Neuer Markt index.

If the exercise criteria are met, the options can be exercised after a lockup period of at least two years, in each case within a period of two weeks following the Ordinary General Meeting and following the publication of quarterly results, but not, however, between January 1 and the date of the Annual General Meeting. The option is valid for a total period of seven years after it has been issued. If the holder does not exercise his/her option within this period, the option expires. A manager cannot make any claims against the company after the expiry of the option. A manager only has a legal right to exercise an option if his/her contract of employment has not been terminated or otherwise come to an end.

The base price of the share corresponds to the average spot rate on the five trading days on the Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) preceding the issue of options plus a 20% surcharge. The options are not

transferable, eligible as collateral, pledgable or assignable. 5,368 options were allocated on December 31st, 1999 to managers who had exceeded their profit targets. The company applies APB 25 to account for these options. All expenses are assigned to the current fiscal year, as they represent a remuneration for services already provided. Expenses in the amount of €68,000 were therefore disclosed in the consolidated financial statements of December 31st, 1999.

No options from the stock option plan 1999 were issued in the fiscal year under review.

### **22. Stock option plan II**

The stock option plan provides for the issue of 450,000 free options to purchase no-par value shares of REALTECH AG.

The following are authorized to exercise the options:

- employees of REALTECH AG, to whom a total of up to 22,500 stock options can be issued;
- the management of companies associated with REALTECH AG within the meaning of § 15 of the German Stock Corporation Act, to whom a total of up to 72,000 stock options can be issued;
- the employees of companies associated with REALTECH AG within the meaning of § 15 of the German Stock Corporation Act, to whom a total of up to 328,500 stock options can be issued;
- new members of REALTECH's Managing Board, to whom a total of up to 27,000 stock options can be issued;

Each stock option grants the holder the non-transferable right to subscribe to one new share of common stock of REALTECH AG. The new shares participate in the company profit from the beginning of the fiscal year in which they are issued.

The purchase and exercise periods for the stock options are determined as follows:

- The stock options are issued in four tranches, starting in 2000 and in the following three years. The stock options

# Notes to the Consolidated Financial Statements



are only issued to the authorized subscribers on the first working day of the month of July, but at the latest by the end of the month of July ("purchase period").

- The stock options can only be exercised after a period of two years following the corresponding date of issue.
- The stock options can only be exercised by the authorized holder within a period of two weeks after the quarterly report is published ("exercise window").
- The maximum term of the stock options is seven years. The term begins with the date of issue ("exercise period").

The exercise price (strike price) for purchasing a new share must be at least:

130% of the average market price of REALTECH AG shares at the close of trading on the Frankfurt Stock Exchange's Neuer Markt on the ten trading days preceding the issue of the stock options ("success goal").

The further details for granting stock options and determining exercise conditions are established by the REALTECH AG Managing Board and – if members of the Managing Board are affected – by the Supervisory Board of REALTECH AG.

### 23. Issued options

The following table summarizes information about the company's stock options as of December 31st, 2000. The options were issued under Option Plan I in 1999 and under Option Plan II in 2000 and 2001.

Exercise rights over 5,368 options existed on December 31st, 2001.

The company applies "APB No. 25 and related interpretations" to account for these employee stock option plans. If the personnel expense for the company's option plan had been established in agreement with the method described in SFAS no. 123 based on the minimum value of the premiums at the time of commitment, the disclosed net income/loss and the earnings per share would be as follows:

	2001 TEUR	2000 TEUR
Net income/loss		
According to statement of income	(2,139,450)	(913,325)
Pro forma	(2,826,703)	(1,126,629)
Earnings per share		
According to statement of income	(0,42)	(0,18)
Pro forma	(0,56)	(0,22)

The market value of each option commitment has been estimated based on the time of commitment, where interest rates (4.3% in 2001, 5.2% in 2000, 5.0% in 1999) for risk-free assets at the time when the option is granted are based on a term (4 years for options issued under Stock Option Plan II and 5 years for options issued under Stock Option Plan I) according to the expected option term. The assumed dividend for all the relevant periods is 0%, the volatility for 2001 is 113%, and the volatility for 2000 and 1999 is 47%.

Year of issue	Outstanding options		Exercisable options	
	Number	Weighted average exercise price in (EUR)	Number	Weighted average exercise price in (EUR)
1999	5,368	64,80	5,368	64,80
2000	135,117	53,87	-	-
2001	220,095	10,80	-	-
	360,580	27,74	5,368	64,80



#### 24. Other financial obligatio

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

	TEUR
2002	3,047
2003	2,499
2004	1,996
2005	994
2006 and following years	7,918
	16,454

#### 25. Other financial obligations

Cash and cash equivalents are posted in the statement of cash flows as "net cash and cash equivalents", i.e. cash and cash equivalents comprise the cash and cash equivalents disclosed in the consolidated balance sheet under the current assets item including fixed-term deposits that can be converted into cash in the short term and have a residual term of less than three months. Cash flows from operating activities are calculated according to the indirect method.

Income tax payments in fiscal year 2001 amounted to €2,268,000 and interest expenses to €246,000.

#### 26. Earnings per shar

When applying SFAS 128 to calculate earnings per share, all effects of options that can be converted into stockholders' equity must be taken into account. There were no dilution effects from the option programs on the balance sheet date in the years 1999, 2000, and 2001. The basic earnings per share indicator therefore only accounts for shares actually issued; the consolidated result is divided by the number of issued shares:

	2001	2000
	EUR	EUR
Earnings per share	(0.42)	(0.18)

A weighted average number of shares in the amount of 5,080,197 was included in the calculation of earnings per share for 2001 and a weighted average number of shares in the amount of 5,054,426 was included for 2000.

#### 27. Events after the balance sheet date

By contract of January 21st, 2002, REALTECH AG sold its 8.35% interest (2,005,681 shares) in InterClubNet plc. for GBP 426,207.25. The resulting depreciation to the lower value to be applied was already taken into account on December 31st, 2001.

Walldorf, February 2002

REALTECH AG

The Executive Board

# Notes to the Consolidated Financial Statements



Having examined the consolidated financial statements and group management report, the independent auditors report as follows:

“We have audited the consolidated financial statements prepared by REALTECH Aktiengesellschaft, Walldorf, including the statement of income, balance sheet, changes to shareholders’ equity, cash flows and the related notes for the business year from January 1 to December 31, 2001. The preparation and content of the consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion, based on our audit, on whether these consolidated financial statements are in conformity with the Accounting Principles Generally Accepted in the United States of America.

We conducted our audit of the consolidated financial statements in accordance with audit regulations and auditing standards generally accepted in Germany, as promulgated by the German Institute of Certified Public Accountants (IDW), and also taking into account the International Standards on Auditing.

Those standards require that we plan and perform the audit so as to obtain reasonable assurance about whether the financial statements are free of material misstatement. In establishing the audit procedure, we have taken into account knowledge of the business activity and the economic and legal situation of the group, as well as possible errors that may be expected. An audit includes examining, on a test basis, evidence supporting the effectiveness of the internal control system related to accounting provisions and the amounts and disclosures in the consolidated financial statements.



# Auditor's Opinion



An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and the cash flows of the group in accordance with the Accounting Principles Generally Accepted in the United States of America. In our opinion, the group management report as a whole provides a suitable understanding of the group's position and suitably presents the risks of the further development.

In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2001 fulfill the requirements for exemption of the Company to prepare consolidated financial statements and the group management report according to German Law. Our audit of the

conformity of the group financial reporting with the EC 7th Directive as a prerequisite for the exemption of the commercial group financial reporting is based on the interpretation of the Directive by DRS 1 "Exempting consolidated financial statements according to 292a HGB".

Heidelberg February 22, 2002

Grant Thornton GmbH  
Auditors

Dr. Harald Riedel  
Wirtschaftsprüfer

Franz-Josef Appel  
Wirtschaftsprüfer

