



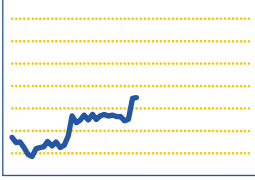
The first marketable Computer with a graphical user interface



→ The Apple “Lisa”

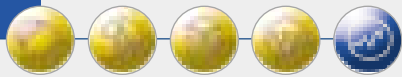


REALTECH AG	
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- A crucial contribution towards the development of the personal computer as we now know it was provided by Rank Xerox. Since 1970 the company has maintained the Xerox Palo Alto Research Center (PARC), in which the first microcomputer, "Alto", was built in 1973. It had a graphical interface, was fitted with a mouse to aid input, and included software that allowed "object-oriented programs" to be written on the graphical monitor without having to be translated into machine language first. Based on an extremely short-sighted decision by the top management, Xerox discarded its project and simply licensed it to another company.
- While visiting PARC in 1979, Steve Jobs of Apple Computers was shown a demonstration of the Alto system: "They actually showed me three things ... but I was so astounded by the graphical user interface ... and in the space of ten minutes it became clear to me that all computers would work like that one day."
- Apple acquired the license for the system and developed it to make it suitable for serial manufacturing – with the well-known icons, menu bar, pulldown menus, and consequential mouse control. Now, thanks to the object-oriented graphical user interface (the "desktop"), even computer laymen are able to use computers – for the first time, the computer is learning to understand people without people having to speak the computer's language.

Solutions 1983




Consolidated Balance Sheets

Assets

	Notes	31.12.2003 EUR	31.12.2002 EUR
Current assets			
Cash and cash equivalents	(5)	5.073.560	4.422.319
Securities	(6)	18.721.357	16.786.298
Trade accounts receivable	(7)	19.512.714	18.618.985
Accounts receivable due from related parties		0	0
Inventories		0	0
Deferred taxes		0	0
Prepaid expenses and other current assets	(8)	2.434.670	2.515.635
Total current assets		45.742.301	42.343.237
Noncurrent assets			
Tangible assets	(9)	11.210.703	12.303.566
Property, plant and equipment		8.641.810	9.071.619
Technical equipment and machines		21.659	24.320
Other equipment and office equipment		2.547.234	3.207.627
Payments on account and assets under construction		0	0
Intangible assets	(9)	1.158.252	2.375.440
Concessions, industrial rights and similar rights and assets and licences in such rights and assets		615.174	938.175
Software manufactured in-house		540.012	1.433.615
Payments on account		3.066	3.650
Financial assets		704.234	912.135
Interests in associates	(10)	550.758	80.942
Loans to associates		0	0
Securities		153.476	831.193
Other loans		40.666	41.777
Goodwill		4.118.691	4.118.691
Deferred taxes	(11)	571.031	629.951
Other assets		0	0
Total noncurrent assets		17.803.577	20.381.560
Total assets		63.545.878	62.724.797

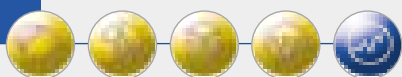


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Liabilities and shareholders' equity

	Notes	31.12.2003 EUR	31.12.2002 EUR
Current liabilities			
Current portion of capital lease obligations		0	0
Short term debt and current portion of long term debt	(12)	766.938	766.938
Trade accounts payable		2.248.009	1.981.394
Accounts payable to related parties		0	0
Advance payments received		0	0
Accrued expenses	(13)	7.729.634	6.985.239
Deferred revenues	(14)	633.028	438.021
Income tax payable	(15)	1.536.769	1.393.953
Deferred taxes	(11)	112.129	264.177
Other current liabilities	(16)	3.427.626	2.656.358
Total current liabilities		16.454.133	14.486.080
Noncurrent liabilities			
Long term debt	(12)	3.067.751	3.834.689
Capital lease obligations		0	0
Deferred revenues		0	0
Deferred taxes		0	0
Other liabilities		0	0
Pension accrual		0	0
Total noncurrent liabilities		3.067.751	3.834.689
Total liabilities		19.521.884	18.320.769
Minority interest		0	0
Shareholders' equity			
Subscribed capital	(17)	6.467.414	6.467.414
Additional paid-in capital	(17)	36.798.418	36.798.418
Treasury stock	(18)	(20.817)	(19.002)
Retained earnings		914.753	1.240.333
Accumulated other comprehensive income		(135.774)	(83.135)
Total shareholders' equity		44.023.994	44.404.028
Total liabilities and shareholders' equity		63.545.878	62.724.797

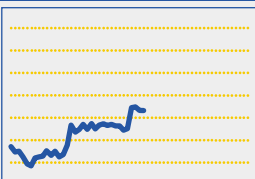


Consolidated Statements of Income

	2003 EUR	2002 EUR
Revenues	55.278.451	56.980.576
Costs of revenues	34.242.383	36.077.561
Gross profit	21.036.068	20.903.015
Selling and marketing expenses	6.028.752	5.154.230
General and administrative expenses	9.992.270	11.475.486
Research and development	4.572.792	3.522.203
Other operating expenses	907.693	1.071.772
Other operating income	1.908.350	2.173.345
Amortization (and impairment) of goodwill	0	0
Depreciation and amortization	0	0
Operating income	1.442.911	1.852.669
Interest income / expenses	563.014	601.518
Income from investments and participations	0	0
Income / expenses from associated companies	82.758	(4.829)
Depreciation of investments	(703.719)	0
Foreign currency exchange gains / losses	(138.616)	(233.981)
Other income / expenses	0	0
Income before taxes (and minority interest)	1.246.348	2.215.377
Income taxes	1.571.928	1.909.241
Other income / expenses	0	0
Income before minority interest	(325.580)	306.136
Minority interest	0	0
Net income	(325.580)	306.136
Net income per share (basic)	(0,06)	0,06
Net income per share (diluted)	(0,06)	0,06
Weighted average shares (basic)	5.076.166	5.077.965
Weighted average shares (diluted)	5.085.353	5.077.965

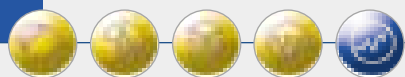


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Consolidated Statements of Cash Flows

	2003 EUR	2002 EUR
Net income	(325.580)	306.136
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Depreciation of noncurrent assets	2.850.282	3.088.579
Change in minority shares	0	0
Income from associates	(82.758)	4.829
	709.395	
<i>Change in assets and liabilities:</i>		
Change in accrued expenses	887.213	732.164
Change in deferred taxes	(93.127)	239.501
Change in other assets	(812.765)	1.540.435
Change in other liabilities	1.232.888	(1.609.024)
Net cash from operating activities	4.365.548	4.302.620
Investment in noncurrent assets	(609.538)	(4.140.618)
Asset disposals	69.306	39.427
Purchase of financial assets	(2.352.683)	(2.021.863)
Net cash from investing activities	(2.892.915)	(6.123.054)
Change in long term borrowing	(766.938)	(766.938)
Increase in additional paid-in capital	0	0
Purchase of treasury stock	(1.815)	(969)
Accumulated other comprehensive income	(31.837)	(11.888)
Net cash from financing activities	(800.590)	(779.795)
Change in cash and cash equivalents	672.043	(2.600.229)
Currency translation	(20.802)	74.692
Cash and cash equivalents at the beginning of the year	4.422.319	6.947.856
Cash and cash equivalents at the end of the year	5.073.560	4.422.319



Consolidated Statements of Changes in

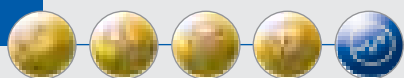
	Common stock	Subscribed capital
December 31, 1999	5,011.660	6,367.069
Net income		
Other comprehensive income		
Unrealized income on securities transactions		
Translation adjustments		
Capital increase from non-cash contributions	79.012	100.345
Purchase of treasury stock	(7.210)	
December 31, 2000	5,083.462	6,467.414
Net income		
Other comprehensive income		
Unrealized income on securities transactions		
Translation adjustments		
Purchase of treasury stock	(5.118)	
December 31, 2001	5,078.344	6,467.414
Net income		
Other comprehensive income		
Unrealized income on securities transactions		
Translation adjustments		
Purchase of treasury stock	(758)	
December 31, 2002	5,077.586	6,467.414
Net income		
Other comprehensive income		
Unrealized income on securities transactions		
Translation adjustments		
Purchase of treasury stock	(1.420)	
December 31, 2003	5,076.166	6,467.414



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Shareholders' Equity

Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other Comprehensive income	Shareholders' equity	Comprehensive income
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)
		306.136		306.136	306.136
			(11.888)	(11.888)	(11.888)
			74.692	74.692	74.692
	(969)			(969)	
36.798.418	(19.002)	1.240.333	(83.135)	44.404.028	368.940
		(325.580)		(325.580)	(325.580)
			(31.837)	(31.837)	(31.837)
			(20.802)	(20.802)	(20.802)
	(1.815)			(1.815)	
36.798.418	(20.817)	914.753	(135.774)	44.023.994	(378.219)



Notes to the Consolidated Financial

1. Business activities

REALTECH AG manages and supports 13 subsidiaries specializing in technology consulting, SAP hosting, and e-business solutions as well as software development for application and system 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, Japan, and Argentina. The company's headquarters are in Walldorf, Baden, Federal Republic of Germany.

2. Significant accounting, valuation, and consolidation policies

The German Group companies keep their accounts and documentation in accordance with the provisions of commercial law, which reflect generally accepted accounting policies in Germany. Foreign Group companies keep their accounts and documentation in accordance with the local legal provisions. German commercial law and the local accounting provisions for foreign Group companies, excluding subsidiaries located

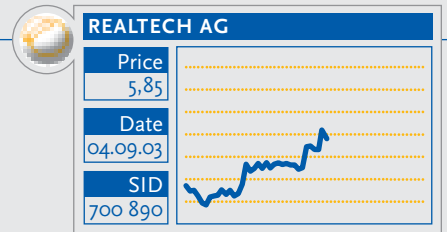
in the US, differ considerably from US Generally Accepted Accounting Principles (US GAAP) in a number of key respects. All necessary adjustments have been made in order to present the annual financial statements in accordance with US GAAP.

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 only 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.



Statements

The capital of the subsidiaries included in the consolidated financial statements is consolidated using the purchase accounting method by offsetting acquisition costs against the proportionate equity of the subsidiaries due to the parent company at the time of acquisition or of first-time consolidation. The difference between the acquisition costs and the proportionate 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. However, the difference resulting from the purchase of the interests in REALTECH system consulting GmbH has been offset 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 intercompany 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, interest income and expenses from loan agreements, distributions of profits, and cost allocations.

b) Companies consolidated

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 UK Ltd., Bracknell, England, 100%

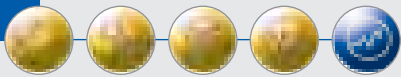
REALTECH Inc., Newtown Square, USA, 100%

REALTECH Australia Pty.Ltd., North Sydney, Australia, 100%

REALTECH Ltd., Auckland, New Zealand, 100%

REALTECH system consulting Pte.Ltd., Singapore, 100%

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 fulfilled the requirements stipulated in section 264 (3) of the Handelsgesetzbuch for utilizing the exemption regulation. The company thus refrains from disclosing the annual financial statements.



c) Consolidation date

The consolidated financial statements were prepared on the parent company's balance sheet date. The subsidiaries included in consolidation prepared their statements on the same date.

d) Report format

Companies listed on the Neuer Markt have been required to issue structured quarterly reports from the quarter beginning on July 1, 2001. In requiring uniform reporting formats, Deutsche Börse AG aims 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 consolidated financial statements.

e) Accounting and valuation policies

Revenue recognition

Revenue and income from customer projects are recognized at the time the service is performed. 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. 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 recognized in 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 face value less write-downs. Specific write-downs for bad debts are calculated individually. Adequate global write-downs are performed to cover the general credit risk.



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Other assets

Other assets are carried at their face value or their lower fair value on 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 recognized in income. 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 recognized in income but are disclosed under a separate equity item if a temporary reduction in value is anticipated.

Interests in associates

Interests in associates are carried at their face value or at their lower fair value on 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.

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 using 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.

Goodwill

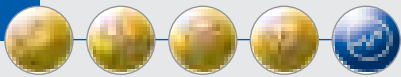
In July 2001, the FASB passed SFAS 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets". According to SFAS 141, all company mergers initiated and completed after June 30, 2001 must be accounted for in line with the purchase method. According to SFAS 142, goodwill and other intangible assets with unrestricted useful lives no longer have to be amortized, but must be reviewed for impairment 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 written down to the estimated net book value over the anticipated useful life.

When this is applied for the first time, goodwill must be reviewed for impairment. Any necessary amortization will be shown separately in the statement of income as transition-based one-off effects.

On December 31, 2001, REALTECH had goodwill to be amortized totaling EUR 4,119 thousand that is subject to SFAS 141 and 142. For fiscal years 2001 and 2000, the regular amortization of goodwill amounted to EUR 1,142 thousand and EUR 1,182 thousand respectively. For fiscal years 2002 and 2003, application of these new accounting standards did not give rise to any amortization of goodwill. Amortization of goodwill is also not expected for fiscal year 2004.

Leasing

Property, plant, and equipment and intangible assets also include leased buildings, software, and vehicles. Due to the terms of the underlying capital leases 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 on the consolidated balance sheet are carried at their redemption amounts.



Accruals

Accruals are formed 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. Tax accruals for the German companies are based on a tax rate of 39.9%. The deferred tax assets carried are written down to the amount at which the future realization of the tax benefit is more probable than the expiration of the loss carried forward.



Comprehensive income

SFAS 130 "Reporting Comprehensive Income" requires that companies applying this standard report in their consolidated financial statements on all changes to equity within a business period.

Companies do not have to report on changes to equity resulting from an injection of capital by the owners or a distribution of profits. The company has decided to report on comprehensive income in its statement of changes in consolidated 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 on 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 earnings of the company are disclosed, unless special hedging accounting is applied.



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f) Currency translation

Foreign currencies are translated 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. Equity is calculated using 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 translating items in the balance sheet and the statement of income are disclosed under "Other comprehensive income".

Changes in the exchange rates used for currency translation were as follows:

Country	Currency	Rate on balance sheet date*		Average annual rate*	
		2003	2002	2003	2002
USA	USD	1,2286	1,0183	1,1309	0,9449
Great Britain	GBP	0,7020	0,6422	0,6919	0,6288
Australia	AUD	1,6626	1,8076	1,7384	1,7366
New Zealand	NZD	1.8982	1,9947	1,9437	2,0357
Singapore	SGD	2,1016	1,7858	1,9804	1,6903
Japan	JPY	132,43	124,20	130,97	119,87

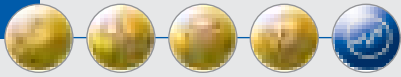
* Equivalent of 1 EUR

g) Estimates and assumptions in the preparation of the consolidated financial statements

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.

h) New accounting standards

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 useful life of the asset. At the end of each reporting period, the liability is adjusted to its current cash value and any changes recognized 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 1, 2002. REALTECH has been applying SFAS 143 since January 1, 2003. This has not had any consequences for the consolidated financial statements.

In August 2001 the FASB published statement FAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", dealing with the obligation to disclose and explain extraordinary impairment as well as the disposal of long-lived assets. Statement 144 replaces both SFAS 121 and APB Opinion No. 30 "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring

Events and Transactions". However, SFAS 144 upholds many of the fundamental rules in SFAS 121. Likewise, SFAS 144 preserves the obligation laid out in Opinion No. 30 to report discontinued

operations separately, with the object of reporting becoming entity components that have either been disposed of in the context of a sale, shutdown, breakup, or spin-off, or that the company intends to sell. The application of SFAS 144 is mandatory for fiscal years starting after December 15, 2001. REALTECH has been applying SFAS 144 since January 1, 2002. This did not have any consequences for the consolidated financial statements.

In July 2002 the FASB published statement FAS 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 replaces the previous accounting rules from EITF issue no. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and requires that costs connected with exiting business activities are not accounted for until the liabilities have actually occurred rather than when the company decides to exit the activities. The costs of exiting activities include costs for terminating existing rental relationships as well as particular



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severance payments connected with restructuring measures, discontinued activities, facility closures, or comparable actions. The rules laid out in SFAS 146 must prospectively be applied to shutdown and sale activities which were initiated after December 31, 2002. Although REALTECH applies SFAS 146, this has not had any consequences for the consolidated financial statements up to now.

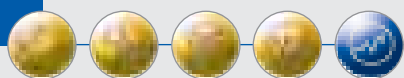
In November 2002 the FASB published FASB Interpretation (FIN) 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 regulates the disclosure obligations of guarantors with regard to their guarantee obligations in interim and annual financial statements. The new rule also stipulates that guarantors must carry as a liability their obligation to pay a guarantee under certain circumstances, regardless of whether a claim is actually imminent (non-contingent component). The guarantee must be disclosed at its fair value at the beginning of the guarantee term. The disclosure rules defined in FIN 45 had to be applied immediately after publication. The new accounting rules are valid for all guarantees granted or changed after December 31, 2002. Although REALTECH applies FASB Interpretation (FIN) 45, this has not had any consequences for the consolidated financial statements up to now.

In November 2002 the Emerging Issues Task Force passed EITF Issue 00-21, Revenue Arrangements with Multiple Deliverables. This rule is concerned with accounting for transactions that involve several delivery and service components with the seller. The rule defines when and if individual components must be treated as separate balance sheet items and how sales revenues for the entire business are to be divided accordingly. The new rules must be applied to new contracts signed in reporting periods starting after June 15,

2003. Application of EITF Issue 00-21 did not lead to any essential consequences for the consolidated financial statements.

In January 2003 the FASB published FIN 46, Consolidation of Variable Interest Entities, as a supplement to Accounting Research Bulletin (ARB) 51, Consolidated Financial Statements. FIN 46 clarifies the application of ARB 51 with regard to the consolidation of certain interests (variable interest entities, VIEs). VIEs are not recorded subject to the requirements for consolidation laid down in ARB 51 because contractual structures or legal circumstance may have a controlling influence on them, regardless of the voting right relationships.

In addition, FIN 46 stipulates that both the primary beneficiary from a VIE and other third parties with an essential interest (significant variable interest) must disclose certain information regarding interests in a VIE. The provisions in FIN 46 must be applied immediately for VIEs formed after January 31, 2003. On October 9, 2003, the FASB passed FASB Staff Position (FSP) FIN 46-6, Effective Date of FASB's Interpretation No.46, Consolidation of Variable Interest Entities. This postponed the introduction of FIN 46 to December 31, 2003 for VIEs formed before February 1, 2003. In December 2003, the FASB passed FASB FIN 46R, Consolidation of Variable Interest Entities. This revoked application for VIEs formed before December 31, 2003 subject to certain circumstances. REALTECH has connections with a VIE, to which the provisions of FASB FIN 46R were applied for the first time on December 31, 2003. Please refer to note number 25 of the consolidated notes.



3. Segment reporting

The company is organized according to the products and services it offers. Within the meaning of segment reporting as set out by 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 figures in the following overviews have been taken from internal reporting, used by the company's essential decision-makers for management purposes. The company's internal

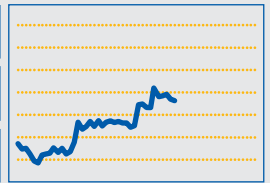
reporting for its management does not allow for assets to be assigned to the business areas.

In terms of the software products business area you should bear in mind that – seeing as theGuard! software developed in house had become ready for marketing – REALTECH has not capitalized any further development expenses since the fourth quarter of 2002. Compared to the previous year, this results in a EUR 597 thousand drop in earnings.

	2003 TEUR	2002 TEUR
Sales to third parties		
Technology consulting	46,756	48,419
Software products	8,523	8,562
	55,279	56,981
EBIT		
Technology consulting	4,394	2,645
Software products	(2,951)	(792)
	1,443	1,853

More than 10% of consolidated revenue was generated with the following customer in fiscal year 2003:

	2003 %	2002 %	2001 %
Customer A	12,2	16,4	17,2

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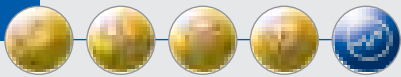
4. Income taxes

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

	2003 TEUR	2002 TEUR
Current income taxes		
Germany	94	248
Other countries	1,545	1,406
	1,639	1,654
Deferred income taxes		
Germany	(120)	229
Other countries	53	26
	(67)	255
	1,572	1,909

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%.

	2003 TEUR	2002 TEUR
Expected tax expense	497	884
Tax rate difference (other countries)	82	235
IRAP (Italy)	748	732
Tax rate difference (Germany)	(46)	58
Depreciation of Grau DataStorage AG	291	0
	1,572	1,909



5. Cash and cash equivalents

Cash and cash equivalents were broken down as follows:

	2003 TEUR	2002 TEUR
Overnight money	41	35
Current accounts	5.033	4.387
	5.074	4.422

6. Investment securities

The proceeds from the initial public offering – insofar as they are not required to finance organic growth – will be invested in part in interest-bearing securities with short-term or medium-term residual terms or in investment funds that invest in such assets until further equity interests are acquired. The Group has therefore classified these securities in accordance with SFAS 115 as available for sale.

These shares involve interests in Grau DataStorage AG, Schwäbisch-Gmünd, amounting to 2.61%.

On January 10, 2003, the General Meeting of Grau DataStorage AG resolved to implement a capital increase to EUR 4,510,441. The shares were issued at a nominal value of EUR 1.00 per share. REALTECH AG participated in this capital increase proportionate to its holding.

Later in fiscal year 2003, Grau DataStorage AG implemented two further capital increases to EUR 5,687,269 in which REALTECH AG did not participate.

On June 30, 2003, REALTECH AG wrote down its interest in Grau DataStorage AG in the amount of EUR 730 thousand to EUR 153 thousand in order to reflect the company's negative business development.

Price
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There are no trading securities. The investment securities item is broken down as follows:

costs	Aquisition value 31.12.2003 TEUR	Fair value 31.12.2003 TEUR	Unrealized gains 2003 TEUR	Unrealized losses 2003 TEUR
Interest-bearing securities	13,900	13,723	27	204
Investment funds	4,996	4,998	2	
Shares	154	154		
	19,050	18,875	29	204

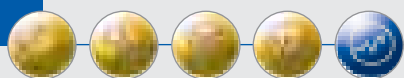
7. Trade accounts receivable

	2003 TEUR	2002 TEUR
Trade accounts receivable	20,068	18,868
Value adjustments	555	249
	19,513	18,619

8. Prepaid expenses and other current assets

	2003 TEUR	2002 TEUR
Receivables from financial authorities	1,585	1,645
Advance wage and travel cost payments	183	235
Interest receivable	103	140
Prepaid expenses	282	307
Other	282	189
	2,435	2,516

The receivables from financial authorities include an Italian income tax refund claim of EUR 1,341 thousand.



9. Intangible assets and property, plant, and equipment

Changes in property, plant, and equipment were as follows:

	2003 TEUR	2002 TEUR
Property, plant, and equipment		
Acquisition costs		
Land, land rights, and buildings	9,778	9,944
Technical equipment and machines	41	36
Other equipment, operating and office equipment	6,764	6,443
	16,583	16,423
Cumulative depreciation thereof accounted for in the statements of income	5,372	4,120
	1,571	1,530
	11,211	12,304

The production costs of software produced 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. REALTECH has not capitalized any further development costs since the fourth quarter of 2002 because the theGuard! software family has become completely ready for marketing.

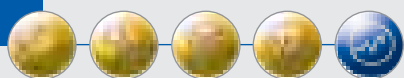
Price
6,90Date
16.10.03SID
700 890

Changes in intangible assets were as follows:

	2003 TEUR	2002 TEUR
Intangible assets		
Acquisition costs		
Concessions, industrial rights and assets and licenses in such rights and assets	1.769	1.730
Software manufactured in-house	4.741	4.741
Goodwill	6.858	6.858
Payments on account	9	8
	13.377	13.337
Accumulated depreciation	8.100	6.843
thereof accounted for in the statements of income	1.279	1.559
	5.277	6.494

10. Interests in associates

REALTECH Italia S.p.A still holds an interest of 49% in E-City S.r.l, Milan. In addition, REALTECH AG holds an interest of 48.8 % in REALTECH Japan Ltd. In the second quarter of the last fiscal year, REALTECH AG increased its interest in REALTECH Japan Ltd., Tokyo, as part of a capital increase as planned – initially from 15.9% to 48.5% and then to 48.8%.



The development of the noncurrent assets is as follows.

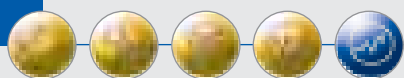
	Acquisition and manufacturing cost				31.12.2003 TEUR
	01.01.2003 TEUR	Additions TEUR	Disposals TEUR	Currency translation Adjust- ments TEUR	
Property, plant and equipment	9,944	0	165	(1)	9,778
Technical equipment and machines	36	7	2	0	41
Other equipment and office equipment	6,443	713	386	(6)	6,764
Tangible assets	16,423	720	553	(7)	16,583
Concessions, industrial rights and assets and licenses in such rights and assets	1,730	61	22	0	1,769
Software manufactured in-house	4,741	0	0	0	4,741
Goodwill	6,858	0	0	0	6,858
Payments on account	8	2		(1)	9
Intangible assets	13,337	63	22	(1)	13,377
	29,760	783	575	(8)	29,960

Price
7,00Date
23.10.03SID
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Accumulated depreciation

Net book values

01.01.2003 TEUR	Additions TEUR	Disposals TEUR	Currency translation Adjust- ments TUR	31.12.2003 TEUR	31.12.2003 TEUR	31.12.2002 TEUR
872	265	0	(1)	1,136	8,642	9,072
12	8	1	0	19	22	24
3,236	1,305	318	(6)	4,217	2,547	3,207
4,120	1,578	319	(7)	5,372	11,211	12,304
792	385	22	(1)	1,154	615	938
3,307	894	0	0	4,201	540	1,434
2,739	0	0	0	2,739	4,119	4,119
5	2	0	(1)	6	3	3
6,843	1,281	22	(2)	8,100	5,277	6,494
10,963	2,859	341	(9)	13,472	16,488	18,798



11. Deferred taxes

Changes in deferred taxes are illustrated in the following overview:

	2003 TEUR	2002 TEUR
Deferred tax assets		
Current (Germany)	44	54
Noncurrent (Germany)	571	689
Current (other countries)	14	42
Noncurrent (other countries)	-	30
	629	815
Deferred tax liabilities		
Current (Germany)	170	339
Noncurrent (Germany)	-	89
Current (other countries)	-	21
Noncurrent (other countries)	-	-
	170	449
Noncurrent deferred tax assets, net	571	630
Current deferred tax liabilities, net	112	264

Amongst other things, deferred tax assets result from trade tax loss carried forward in the amount of EUR 1,730 thousand as of December 31, 2003, the tax effect of which has been capitalized. The loss carried forward is regarded as having an unlimited term 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.

Price
6,85Date
30.10.03SID
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12. Liabilities to banks

The Group took out a loan with the IKB Deutsche Industriebank in the amount of EUR 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 is repaid on March 31 and September 30 of each year, beginning in fiscal year 2001, each time in the amount of EUR 383 thousand. The loan is currently valued at EUR 3,835 thousand.

13. Accruals

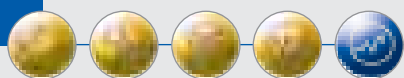
Accruals related mainly to accruals in the areas of personnel, costs for preparing annual reports, and auditing as well as consulting charges. Other accruals are disclosed as follows:

	2003 TEUR	2002 TEUR
Provisions for employees	3,270	2,745
Vacation accruals	2,048	2,209
Bonuses/sales participation	1,580	1,045
Salaries/severance payments	147	291
Legal and consulting charges	101	105
Other	584	590
	7,730	6,985

In accordance with legal provisions, an accrual in the amount of EUR 2,141 thousand was set up to cover the possible departure of Italian employees from the company (previous year EUR 1,603 thousand). The accrual is measured in the amount of one month's wages per year of employment.

14. Deferred income

The deferred income essentially involves software maintenance contracts amounting to EUR 251 thousand. The average term of contracts is 12 months.



15. Income tax liabilities

	2003 TEUR	2002 TEUR
Income tax	1,537	1,388
Trade tax	0	5
Other	0	1
	1,537	1,394

16. Other current liabilities

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

	2003 TEUR	2002 TEUR
Sales tax	1,140	296
Wage tax	758	752
Salaries	435	472
Sozial security	393	385
With holding tax (WHT)	164	153
Remaining purchase price of acquired companies	134	268
Contract leases (Italy)	0	80
Other	404	250
	3,428	2,656

17. Capital stock and additional paid-in capital


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

18. Treasury stock

On June 7, 2001, the stockholders authorized the company to buy back treasury stock of up to 10% of the share capital in the amount of EUR 6,467,414.04.



REALTECH AG	
Price	7,10
Date	06.11.03
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REALTECH did not make use of this in fiscal year 2001. REALTECH AG holds 16,286 of its own shares. This corresponds to an interest in the share capital of EUR 20,683.22 (0.32%). During the fiscal year, 1,420 shares were purchased from departing employees at a price of EUR 1.28 per share.

19. Authorized and conditional capital

The General Meeting of April 1, 1999 authorized the Executive Board to increase the subscribed capital against cash and/or non-cash contributions by a total of up to EUR 3,175,000.00 before April 1, 2004 by issuing 2.5 million no-par value shares (authorized capital). The Executive Board and Supervisory Board are authorized to exclude stockholders' subscription rights. EUR 117,414.04 of the authorized capital had been taken up by the balance sheet date. The General Meeting also resolved a conditional capital increase in the amount of EUR 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 before April 1, 2004. Please refer to note number 20 of the consolidated notes on the company's Stock Option Plan I.

The General Meeting of May 22, 2000 resolved a conditional capital increase in the amount of EUR 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 before May 22, 2005. Please refer to note number 21 of the consolidated notes on the company's Stock Option Plan II. 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 securities by May 15, 2007. Please refer to note number 22 of the consolidated notes on the company's Convertible Bond Program.

20. Stock Option Plan I

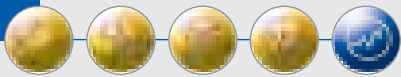
The company's Stock Option Plan provides for the issue to members of the senior management of foreign subsidiaries of 50,000 free options to purchase no-par value shares of REALTECH AG. The option plan is limited to five years. Each option entitles the holder to purchase one no-par value share.

The entitlement of managers to a certain number of options depends on their own contribution to the overall performance of the REALTECH Group on the basis of consolidated earnings targets for a fiscal year. Options can be exercised if

- managers at least meets their 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 lock-up 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 General Meeting in that year. The option is valid for a total period of seven years after it has been issued. If holders do not exercise their options within this period, the options expire. A manager cannot make any claims against the company after the expiry of the option. Managers only have a legal right to exercise an option if their 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, pledgeable, or assignable. 5,368 options were issued on December 31, 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 remuneration for services already provided. Expenses in the amount of EUR 68 thousand were therefore disclosed in the consolidated financial statements of December 31, 1999. No options from Stock Option Plan I were issued in the fiscal year under review.



21. 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 section 15 of the Aktiengesetz (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 section 15 of the Aktiengesetz, to whom a total of up to 328,500 stock options can be issued;
- new members of REALTECH's Executive 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 ordinary share of REALTECH AG. The new shares carry profit participation rights from the beginning of the fiscal year in which they are issued.


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

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



REALTECH AG	
Price	7.77
Date	13.11.03
SID	700 890



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

From Stock Option Plan II, 168,189 options were issued in 2002 and 225,079 options were issued in 2001. No options from Stock Option Plan II were issued in the fiscal year under review.

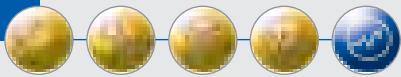
22. Convertible Bond Program

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 stockholders – as well as to employees and members of the Executive Boards of companies associated with the company in accordance with section 15 of the Aktiengesetz. In fiscal year 2002 convertible bonds were issued with the following conditions:

Issue date	July 31, 2002
Face value	EUR 1.00
Total face value of the convertible bond	EUR 1,000
Term	July 30, 2007
Interest rate	6,0 % p.a.
Additional amount to be paid share	EUR 5.11
Issued options	100.000
Earliest time of conversion	July 31, 2004
Latest time of conversion	July 30, 2007

In the past fiscal year convertible bonds were issued with the following conditions

Issue date	July 31, 2003
Face value	EUR 1,00
Total face value of the convertible bond	EUR 100
Term	July 30, 2008
Interest rate	6,0 % p.a.
Additional amount to be paid share	EUR 5,88
Issued options	10.000
Earliest time of conversion	July 31, 2005
Latest time of conversion	July 30, 2008



23. Issued options

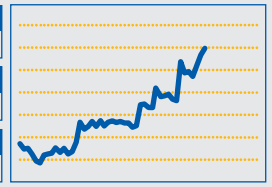
The following table summarizes information about the company's stock options as of December 31, 2002. The

options were issued under Option Plan I in 1999 and under Option Plan II in 2000 and 2001. Convertible bonds were issued in 2002 and 2003.

	Outstanding options			Exercisable options	
	Year of issue	Number	Weighted average exercise price in EUR	Number	Weighted average exercise price in EUR
	1999	5,271	64.80	5,271	64.80
	2000	92,718	53.87	92,718	53.87
	2001	161,586	10.80	161,586	10.80
	2002	87,500	5.12	-	-
	2003	10,000	5.89	-	-
		357,075	21.25	259,575	27.28

There were exercise rights for 259,575 options on December 31, 2003.

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:



	2003 EUR	2002 EUR
Net income		
according to statements of income	(325.580)	306.136
pro forma	(647.916)	(445.302)
Earnings per share		
according to statements of income	(0,06)	0,06
pro forma	(0,13)	(0,09)

The fair value of each option commitment has been estimated based on the time of commitment, where interest rates (3.2% in 2003, 4.1% in 2002, 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 2003 is 75%, the volatility for 2002 is 99%, the volatility for 2001 is 113%, and the volatility for 2000 and 1999 is 47%.

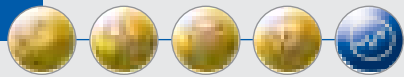
24. Other financial obligations

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

	TEUR
2004	3.320
2005	2.413
2006	1.530
2007	1.296
2008 and following years	7.128
	15.687

25. "Variable interest entities"

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. Pudu Grundstücks-Vermietungsgesellschaft is a "variable interest entity" within the meaning of FASB Interpretation No. 46. 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 9,367 thousand on December 31, 2003 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.



26. Consolidated statements of cash flows

Cash and cash equivalents are posted in the statements of cash flows as "net change in cash and cash equivalents", i.e. funds comprise the cash and cash equivalents disclosed in the consolidated balance sheet under 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 using the indirect method.

Income tax payments in fiscal year 2003 amounted to EUR 1,563 thousand (previous year: EUR 1,119 thousand) while interest expenses amounted to EUR 179 thousand (previous year: EUR 240 thousand).

27. Earnings per share

When applying SFAS 128 to calculate earnings per share, all effects of options that can be converted into equity must be taken into account. The option programs in the years 1999, 2000, and 2001 did not give rise to any dilution effects on December 31, 2002 or on December 31, 2003. Dilution effects occurred for the first time on December 12, 2003, however, as a result of the Convertible Bond Program in 2002 and 2003.

	2003	2002
Earnings per share - undiluted	(0,06) EUR	0,06 EUR
Earnings per share - diluted	(0,06) EUR	0,06 EUR
Average shares in circulation - undiluted	5.076.166	5.077.965
Average shares in circulation - diluted	5.085.353	5.077.965

28. Additional information regarding the Executive and Supervisory Boards

Remuneration received by the Executive Board in fiscal year 2003 totaled EUR 320 thousand (compared to EUR 266 thousand in the previous year). The fixed portion (including non-cash benefits from company cars and social security allowances) was EUR 230 thousand (previous year: EUR 246 thousand), while variable remuneration totaled EUR 90 thousand (previous year: EUR 20 thousand). No options were granted in fiscal year 2003 (previous year: 20,000 options at an exercise price of EUR 5.12).

Remuneration received by the Supervisory Board in fiscal year 2003 totaled EUR 94 thousand (compared to 73 thousand in the previous year). No variable remuneration was paid.

29. Declaration with respect to the German Corporate Governance Code in accordance with section 161 of the Aktiengesetz.

On September 10, 2003 the Executive and Supervisory Boards submitted their second compliance declaration in accordance with section 161 of the Aktiengesetz.


Walldorf, February 2004

REALTECH AG

The Executive Board



REALTECH AG	
Price	9,09
Date	27.11.03
SID	700 890



Auditors' Opinion

Having examined the consolidated financial statements and group management report, the independent auditors' opinion 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, 2003. 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). 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. 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, 2003 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 13, 2004

Grant Thornton GmbH
Auditors

Dr. Harald Riedel Franz-Josef Appel
Wirtschaftsprüfer Wirtschaftsprüfer