

The “calculating clock”: mechanical implementation of Napier slide rules



Calculating machine designed by Wilhelm Schickard



REALTECH AG	
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- Information technology has many precursors and just as many mothers and fathers. They all had one thing in common – they were all looking for solutions and means of simplifying tasks. Whereas human mental powers had been enough to master earlier mathematical problems, the escalating amount of time required for calculations meant that the increasingly complex problems involved in areas such as astronomy, navigation, and ballistics were more than people could manage on their own. The masterminds of the time therefore began pondering how technology could be used to liberate the human mind for more important things than time-consuming routine calculations.
- Among the most important groundwork here included new mathematical and logical methods, for instance the new methods developed by John Napier for calculating logarithms. Based on his simplified rules it was possible to reduce the most difficult and time-consuming multiplications to the addition of table entries.
- This, combined with the slide rules developed by Napier, was utilized by the astronomer Wilhelm Schickard to construct a machine designed to relieve him of some of the work involved in performing complicated astronomical calculations. Although the machine mastered the basic types of calculation, a large number of intermediate results had to be calculated and carried over manually. Nevertheless, the age of information technology had begun.

Solutions



Report of the Executive Board



Michael Knopp
Chief Financial Officer

Daniele Di Croce
Chief Executive Officer

 **Dear Shareholders and Business Partners, dear Madam and Sir,**

Companies in the high-tech sector are confronting new and unfamiliar challenges. In the late 1990s, the future looked bright for IT and telecommunications and the industry was being touted as a model for other business sectors. Today, however, IT and telecommunications firms are contending with much the same problems as those affecting other branches of industry. Like other businesses, IT companies need to develop not only new products and innovations but also particularly streamlined business processes.



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At the same time, conditions and requirements on the part of the customer have changed substantially. In previous years, IT investments have primarily been expected to make IT infrastructures as innovative as possible. The most important question that companies will ask in the future, however, is which products and services give rise to profits fastest. In this respect, IT should not merely be viewed as a cost driver. Reduced computer center expenditure can only improve the situation in the short term. In the long run, it is essential that IT departments, like every other business area, are monitored and controlled according to profitability criteria. Information technologies will increasingly be measured in terms of whether they generate added value and whether they enhance the company's performance and efficiency.

REALTECH is well aware of this paradigm shift in the IT sector. As a result of its ongoing communication with customers, REALTECH is familiar with both present and future market requirements. Accordingly, employees, products, and services are designed in a flexible manner so that the company is able to respond speedily to new demands.



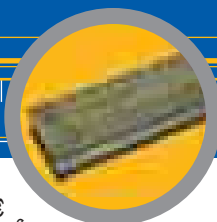
Fiscal year 2003

This time last year we stated at precisely this point in our annual report that REALTECH expected a number of factors over which the Group would have little or no influence to have a negative effect on the company's revenue and income again in 2003. Due to the sustained reluctance of both existing and potential customers to invest, we were in the end unable to achieve the revenue targets we had set ourselves. Nevertheless, a look at REALTECH AG's fundamental figures clearly shows that we successfully made the most of 2003 – generally regarded as a difficult year – to further strengthen the Group's strong position. Revenue remained stable at around the level of fiscal year 2002 and, recording a positive cash flow and an increase in cash and cash equivalents while simultaneously expanding our sales and distribution, we have most certainly improved our situation as a whole.

Having taken numerous measures to cut costs in the year under review, we succeeded in improving our income from operations. Although the figure – at 1.4 million euros – is below the income of 1.9 million euros recorded in 2002, you should bear in mind that REALTECH has not capitalized any further development expenditure in accordance with US accounting rules since the fourth quarter of 2002 because the theGuard! software had become ready for marketing. Compared to 2002, therefore, income from operations in the year under review dropped by 0.6 million euros. The high tax quota and the one-off effect of writing down an investment gave rise to slightly negative earnings per share.

One aspect that was very pleasing in 2003 was the rise in the price of REALTECH shares, which, almost without exception, increased more rapidly than the two relevant comparative indices, the Prime Software and TecDax. Starting from the closing price on December 31, 2002, the share price more than doubled over the course of the year under review. This means that the market capitalization of REALTECH AG, in other words the product of the share price and the number of shares, has come close to the book equity and now amounts to 86 per cent of this value. We are highly satisfied with this price development.

1642



The "Pascaline"
The first mechanical adding machine to be widely used was invented by Blaise Pascal to relieve his father – a tax collector – of the tedious routine work involved in calculating taxes.

1673



Computer designed by Samuel Morland
Here, addition/subtraction and multiplication/division still had to be performed using two separate machines and tens also had to be carried over manually.



Creating lasting value

Companies have spent the past few years concentrating on cutting the costs for their IT systems. A large number of companies therefore already have IT controlling processes, while others are currently catching up in this respect. However, the potential for further savings is still far from exhausted. Our solutions can help customers from all sectors of industry to reduce their IT operation costs and thus make their companies more profitable.

REALTECH has established itself as an esteemed technology consultant in the consulting business. Customers put their trust in the technological skills of REALTECH consultants and use our expertise to secure themselves a competitive edge in their particular market segment.

REALTECH has steadily created values that endure from one reporting period to the next. We have never stopped being true to the principles of conservative-oriented accounting and sound financial management. All our controlling instruments are designed to maximize transparency in terms of business growth and to achieve lasting success.

Today, we consider REALTECH AG to be a well established company with sound basic values, including not only our sturdy balance sheet but also our innovative solution offering. We are a reliable partner for our customers in the long term, as is demonstrated by the fact that we have been supporting various companies ever since our formation in 1994.

Goals for 2004

In view of the fact that the market environment has remained difficult, we have done very well in the year under review. We expect the uncertain economic situation to persist into the new fiscal year. We have taken this situation into consideration in our planning and have not based our calculations on any tangible economic recovery in our target markets. At the same time, requirements in the IT market are changing. What we need to do is to organize this transformation by creating flexible organizational structures and developing our service offering to meet customer needs as effectively as possible. We are basing our activities on a targeted, long-term strategy, characterized by concentration on clearly defined core areas. The upcoming market transformation means that all employees and managers need to be highly concentrated and motivated.

Companies in the IT sector now need to comply with the basic principles of reliable, controlled management. In order to reap the full benefits of these principles, however, companies need to apply them consistently. Here at REALTECH, all the important guiding themes and requirements of our business strategy interact in a meaningful way to support our primary goal, namely to achieve an ongoing increase in our productivity and profitability.

We use various means to meet this challenge, starting with our esteemed technology consulting services that help customers optimize their IT infrastructures. We are currently making an effort to tighten our consulting portfolio and concentrate on areas such as portals, Web integration, IT optimization, and IT operation. In specializing and concentrating on our core competencies, we expect to be able to further strengthen our position. In addition, we are planning to expand our business operations outside Germany and promote international collaboration within the REALTECH Group. In this way we will be able to ensure that the existing skills of our employees are input more purposefully and more efficiently into customer projects. We also intend to tailor our activities even more

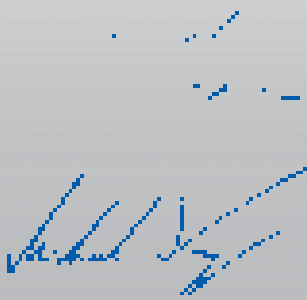


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closely to the latest needs and specific requirements of companies. And, last but not least, we are working on refining our controlling processes by fine-tuning all our instruments to achieve constant cost control. Our aim here is not just to identify potential savings but, much more importantly, to optimize the ratio between the resources used and the result achieved.

We would like to express particular gratitude to our employees for their great commitment as well as our customers and stockholders for their confidence in us. All of you have continued to play a key role in the success of the REALTECH Group in fiscal year 2003.

Warm regards,
Your Executive Board



1694



Leibniz's stepped-wheel machine
Gottfried Wilhelm Leibniz invents the first mechanical four-operation computer using a stepped wheel. See page 14.

1709



Poleni's calculating clock
The Italian Marquis Giovanni Poleni constructs a "calculating clock" using a sprocket wheel — and destroys it in rage with his own hands when he learns that Anton Braun has created a working sprocket wheel machine in Vienna.



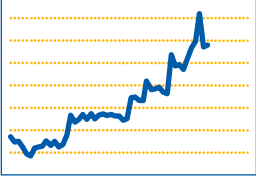
Report of the Supervisory Board

Intensive, ongoing communication between the Supervisory and Executive Boards is vital for the Supervisory Board to work efficiently. We further intensified this communication in 2003, therefore acting in accordance with the Corporate Governance Code. The key items of our advice are explained in the following report.

In the year under review, the Supervisory Board has met its obligations arising both from law and from the Articles of Association. It regularly advised the Executive Board on governing the company and monitored the company's management. The Supervisory Board was directly involved in all decisions of fundamental significance for the company. Predominantly in written reports, the Executive Board regularly informed the Supervisory Board promptly and extensively about company strategy and corporate planning, about the course of business, about the situation of the Group including the risk situation, and about risk management. The Executive Board consulted the Supervisory Board regarding the company's strategic orientation. All business transactions of significance for the company were discussed by the Supervisory Board in detail based on the reports presented by the Executive Board. The chairman of the Supervisory Board also regularly inquired outside the Board's meetings about the current development of the business situation and essential operations.



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Meetings and committees

The Supervisory and Executive Boards met on five occasions in the fiscal year 2003 to discuss the business situation of the Group, the strategic further development of the Group and its fields of business, as well as a range of other individual topics.

During these meetings, the Supervisory Board drew on the detailed information provided by the Executive Board to analyze the company's current and future business development. In as far as the law or Articles of Association required decisions from the Supervisory Board for individual business transactions and measures of the Executive Board, we discussed these issues and reached the necessary decisions during the meetings of the Supervisory Board.

Since 2001, the Supervisory Board has had an accounting audit committee and personnel committee, with the aim of further increasing the efficiency of its activities. At the same time, this complies with the recommendations of the German Corporate Governance Code. For instance, the accounting audit committee examines annual and consolidated financial statements, checks quarterly statements, and works with the auditors to define the points on which the audit is to focus. The personnel committee is primarily responsible for dealing with personnel issues relating to the Executive Board.

Supervisory Board meetings in fiscal year 2003 frequently focused on the development of the company's two business fields of consulting and software. Corporate strategy aims to intensify the sale and distribution of software products by expanding direct and indirect distribution channels both in Germany and abroad. In its Consulting division, REALTECH is concentrating even more on core competencies such as technology consulting with a view to making the most of existing potential. The range of topics discussed at the meetings also included questions regarding human resources, successors, and corporate governance at REALTECH.

The issues that the Supervisory Board dealt with in its meeting in February 2003 included the provisional figures for the fourth quarter of 2002 and fiscal year 2002, as well as the approval of the budget for 2003. Decisions were made with regard to transactions requiring approval, such as an increase in capital at REALTECH Japan Ltd. and the bonus agreement for the Executive Board.

The focus of the meeting in March was on the reports submitted by the auditors and the accounting audit committee, the approval and conclusion of the consolidated and annual financial statements for 2002, the approval of the agenda for the General Meeting in 2003, and the forecast figures for the first quarter of 2003.

The meeting in August concentrated on explaining the current quarterly figures and discussing the outlook for fiscal year 2003. The meeting also dealt in particular with REALTECH's second compliance declaration regarding the German Corporate Governance Code and the management equity participation program for 2003.

An analysis of the figures for the third quarter in 2003, the outlook for fiscal year 2003, and the definition of the company's strategic alignment in 2004 for Germany in the areas of consulting and software were the main features of the meeting in October. In addition, decisions were reached concerning personnel affairs, the disbursement of dividends, and an increase in capital at REALTECH Italia S.p.A.

Approving the budget for 2004 and working with the auditor to define the points on which the audit should focus were the main items on the agenda for the December meeting.

The membership of the Executive and Supervisory Boards did not change in fiscal year 2003.



Annual and consolidated financial statements

The REALTECH AG annual financial statements for the year 2003 and the management report including the accounting were audited by the external auditing company Grant Thornton GmbH, Heidelberg – appointed in the General Meeting on May 15, 2003 and engaged as auditor by the Supervisory Board – and issued with an unqualified audit opinion. The same applies for the US GAAP consolidated financial statements, to which a group management report has been added. According to section 292a of the Handelsgesetzbuch (HGB - German Commercial Code), these US GAAP consolidated financial statements exempt the company from the obligation to present consolidated financial statements in line with German law.

All committee documents, the Executive Board's proposal for the appropriation of net profits, and the auditors' reports were presented to the Supervisory Board in good time. They have been verified by the accounting audit committee and Supervisory Board and discussed in the presence of the auditors. The Supervisory Board has approved the result of the audit by the auditors and, in the context of an audit of its own, established that no objections need to be raised.

In its meeting on March 22, 2004, the Supervisory Board approved the consolidated financial statements for 2003, the combined management report for 2003, and REALTECH AG's annual financial statements for 2002, and agreed to the Executive Board's proposal for the appropriation of net profits.

The Supervisory Board wishes to take this opportunity to thank all members of the Executive Board, as well as all of the company's employees, for the successful part they have played and the high degree of personal commitment shown in achieving an ongoing increase in the value of REALTECH AG and all associated companies.

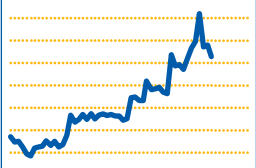
Walldorf, March 2004
The Supervisory Board



Dieter Matheis
Chairman



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Board of Directors

Supervisory Board

Dieter Matheis
(Chairman)
Retired Chief Financial Officer of SAP AG

- Member of Supervisory Board (Chairman) of SNP Schneider-Neureither & Partner AG, Heidelberg
- Member of Supervisory Board of Caatoosee AG, Leonberg
- Member of Supervisory Board of Cybio AG, Jena
- Member of Supervisory Board of Heiler Software AG, Stuttgart
- Member of Advisory Board of Interactive Objects GmbH, Freiburg

Jürgen B. Harder
Graduated Business Economist

Richard Roy
(Deputy Chairman)
Management Consultant

- Member of Supervisory Board (Deputy Chairman) of iXOS Software AG, Grasbrunn
- Member of Supervisory Board of Lion Bioscience AG, Heidelberg
- Member of Managing Board of Swisscom AG, Bern/Schweiz

Rainer Schmidt
Graduated Computer Scientist

Peter Stier
Graduated Physicist

Norbert Schwerber
German CPA and Tax Consultant

- Member of Supervisory Board (Chairman) of Nieding + Barth, Rechtsanwaltsaktiengesellschaft, Frankfurt
- Member of Supervisory Board (Chairman) of VEDACON AG, Montabaur
- Member of Supervisory Board (Chairman) of Cosmetic Service AG, Eppertshausen
- Member of Advisory Board of Hugo Görner GmbH, Aalen

Executive Board

Daniele Di Croce
(Chief Executive Officer)

Michael Knopp
(Chief Financial Officer)