



ANNUAL REPORT
2004





The Management Report for REALTECH AG is combined with the management report for the Group



Our trust can only be justified
by someone whom we have
already given our trust.

*Ernst Ferstl (*1955),
Austrian teacher,
poet, and aphorist*

A. Market

The economic climate

There is no need to be pessimistic about the global economy, and therefore capital markets, in the year 2005. Nevertheless, the economy is only very slowly gaining momentum. Consequently, international economic experts anticipate that the global economy will continue to expand steadily – if somewhat more slowly – in 2005. The growth forecasts at the beginning of the year are in the region of between 3.6 per cent and 4.1 per cent. Although these figures are lower than the figure of 4.8 per cent recorded in 2004, they are still clearly higher than the average of 3 per cent achieved during the 1990s. What's more, at 4.8 per cent the global economy recorded its fastest rate of growth for more than 20 years. The real increase of nearly 4 per cent that both domestic and foreign banks foresee for 2005 would therefore still be an expansion rate slightly above the historical trend.

The general consensus for the euro zone is that the upturn is set to continue in 2005. Although oil prices will most likely have a negative impact on the economy at the beginning of the year, we can by all means expect rising domestic demand after that, assuming that no other negative influences are registered. For the year 2005 as a whole, the growth rate is expected to be just under 2 per cent, that is, slightly lower than in 2004. Things are looking good with regard to the economic situation in Germany, where investments have increased for the first time in years.

As for German gross domestic product, leading economic research institutes are predicting an increase of between 0.8 per cent and 2 per cent. German industry managers are more optimistic about the present situation than they have been for three years, expecting the export-driven upturn to continue. However, industry managers do not believe that industry will create new jobs. Positive signs on the employment horizon are expected from capital goods manufacturers in the fields of mechanical engineering, electrical engineering, metal production / metal working,



DURING 2004, REALTECH ONCE AGAIN SUCCEEDED IN ALIGNING ITS RANGE OF PRODUCTS AND SERVICES EVEN MORE CLOSELY WITH THESE CHANGED CUSTOMER REQUIREMENTS. TODAY, THE COMPANY PRESENTS ITSELF AS A SPECIALIST SUPPLYING BOTH MEDIUM-SIZED BUSINESSES AND MAJOR CORPORATIONS WITH FUTURE-ORIENTED IT INFRASTRUCTURES.



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and pharmaceuticals. In contrast, expectations are least optimistic in those branches of industry that revolve around the domestic market, especially because of the continued sluggishness of the construction market.

► Industry

In Europe, the Near East, and Africa (EMEA), revenues in the IT sector grew by 4 per cent, putting them on a par with the figure in the US, while Asia recorded a much higher growth rate of around 6 per cent. Companies that record the majority of their sales in the fields of IT consulting and systems integration suffered a substantial decline of 8 per cent in the period from 2002 to 2003. It was only in 2004 that the IT sector returned to slightly positive development, with a growth rate of up to 5 per cent.

The reluctance of companies to invest in new IT systems in 2004 also led to lower demand for IT consulting. The situation was exacerbated by the fact that, having increased their numbers of employees during the years of the Internet boom, IT consultancies had problems with overcapacity. On top of this, there is only a sufficient demand for the services of IT consultants and systems integrators if companies implement enough new hardware and software solutions. Based on this overall situation, a classic buyer market has emerged, enabling customers to exert a huge influence on prices. The result has been lower revenues and falling corporate profits on the part of suppliers.

Such a market environment benefits specialists such as REALTECH who are needed, despite all the pressure to reduce budgets, in order to optimize and enhance IT systems. As in many service markets, it is also true in the case of IT consultancy that the greatest pressure is on medium-sized suppliers, a group which also includes REALTECH. According to the data of market research institutes, medium-sized companies in Germany are accountable for more than 40 per cent of IT investments. At the same time, analysts have established that there is an IT investment jam of between five and seven years in medium-sized companies.

Developments relating to budgets demonstrate that things are picking up again in the IT sector. Market researchers and analysts are also reporting increases in terms of user investments. In a recent analysis, the META Group forecasts that IT budgets will rise by an average of 5 per cent in 2005. According to estimates by analysts at Gartner, budgets are set to rise by an average of 2.5 per cent in 2005.

In the field of IT and business services, the expectation is that there will be further increases in the outsourcing of services to "low-wage countries" (nearshoring and offshoring). Suppliers and users alike will attempt to cut costs by outsourcing primarily administrative services. According to analysts at Gartner, 3 per cent of the total revenues from IT services round the world are going to offshore service providers – and the proportion is set to rise to nearly 7 per cent by the year 2007.

With regard to suppliers, the picture on the market is rather varied. Above all, market observers are concerned that there will be a cyclical downturn in the semiconductor industry, which could become an indicator for the entire high-tech sector. In contrast, the signs point to an easing of tension on the software market, where an increased willingness to invest on the part of customers is noticeably having a positive effect. Although license revenues are frequently stagnating or even on the decline, the maintenance and services business is flourishing. As for the hardware segment, various signals are being sent out. Whereas the leading suppliers have been able to expand by around 6 per cent in the international server business, the PC market has continued to be difficult.

► B. Strategy

IT companies are currently operating in a market environment that is very different from the one in which they first went public. At the end of the 1990s, companies in all sectors of industry were still investing in expanding their IT systems and organization on a large scale. However, this expansion was followed by a phase of consolidation, which has still not been completely finished today. It was only in the course of 2004 that a somewhat cautious, but apparently sustained, process of normalization set in and numerous restructuring measures that were initiated as part of cost-cutting programs have now



In April 1999, REALTECH AG takes the step of going public, with REALTECH shares being listed in the "Neuer Markt" segment of Frankfurt Stock Exchange.



been completed. Another thing that happened in the year under review is that a large number of depreciation cycles for IT acquisitions ended. So, rather than having such depreciation put a strain on IT budgets as in previous years, companies now have more scope for additional investments. In addition, numerous companies currently need to consistently expand their activities in order to remain competitive in the long term. This means that they desperately need a modern technical infrastructure – especially since postponed investments have resulted in hardware ultimately being used a lot longer than is usual and wise.

None the less, the specific requirements of both existing and potential REALTECH customers with regard to IT products and services have changed just as greatly over the past few years as the role that information technology plays in these companies. Market surveys indicate that the momentum of the IT sector has been exhausted, and that today's companies are essentially focusing more on using hardware and software as a means to an end – as a central tool with which they hope to achieve a high degree of automation and process all their business processes as efficiently and reliably as possible. As companies endeavor to tighten cost management, stringently consolidate their system environments, and reorganize business processes by means of application integration, IT is advancing to become a key pillar for corporate success. In the process, as demonstrated by an investigation conducted by Cap Gemini, action should primarily focus on optimizing the efficiency and reducing the costs of IT infrastructures – in other words, on an area of activity in which REALTECH has already implemented top-class solutions and has excellent references.

Market observers are in two minds about demand for ERP (enterprise resource planning) systems in the near future. REALTECH has developed numerous products and services aiming to ensure that ERP solutions run smoothly, and these have come to constitute a core source of revenue for the company. Whereas several surveys, in view of the tense economic situation, continue to anticipate a reluctance to invest in such software solutions, other market researchers such as the Meta

Group believe that there will soon be an ERP revival. Here, too, the main emphasis will be placed on REALTECH's core competency, namely boosting the efficiency of companies by optimizing IT-supported business processes.

During 2004, REALTECH once again succeeded in aligning its range of products and services even more closely with these changed customer requirements. Today, the company presents itself as a specialist supplying both medium-sized businesses and major corporations with future-oriented IT infrastructures. The company's offering revolves around software solutions and consulting services with which customers can ensure that increasingly complex systems run smoothly – a challenging task when faced with declining numbers of employees and limited budgets.

In 2004, based on specific project experience and intensive communication with users, REALTECH AG purposefully enhanced its range of software products. The company has grouped together a total of five established products – theGuard! Helpdesk, InventoryManager, SystemManagementPortal, ServiceLevelAnalyzer, and Reporting – creating a solution suite that enables customers to enjoy end-to-end system management. All the functions and data in the new theGuard! ServiceCenter can now be used and controlled using a uniform interface.

In the year under review, REALTECH also adapted the range of services offered by its Consulting business unit. Aiming to meet current market needs, this unit is concentrating its consulting services on helping companies achieve a lasting reduction in ongoing IT costs. Examples of these services include analyzing optimization potential as well as designing and implementing particularly efficient infrastructures and business processes. Moreover, REALTECH AG has also paid particular attention to enhancing its consulting expertise relating to IT consolidation. Although the company was already a leader in this area, this was necessary because IT consolidation is set to remain the main focus of many projects in the foreseeable future. Throughout the industry, the company's consultants enjoy an excellent reputation for their ability to take complex IT processes and infrastructures that can only be controlled at high cost and transform them into homogeneous, future-



A lot also happens in 1999 with regard to company acquisitions as, between August and September, REALTECH AG purchases DB-Online GmbH, 51% of Globe technology, and LMC/LAN Management Consulting GmbH, Schweitenkirchen.



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oriented system environments that are easy to use and maintain. On top of this, REALTECH has invested in appropriate expertise to enable customers to benefit from the advantages of the latest IT and Web technology. The range of services in this area includes, for instance, evaluating and implementing new technology, making the necessary preparations for implementing SAP NetWeaver, and drawing up customer-specific integration strategies as part of initial projects.

In view of this range of harmonized software products and consulting services, REALTECH believes that it is well equipped to act as a competent and reliable partner on the market in 2005, too – as a technology supplier and consultancy providing customers with affordable and yet effective solutions to meet all urgent IT challenges.

as well as its contribution towards profits, have been deducted and indicated below the EBIT line, giving rise to a considerably higher income at EBIT level.

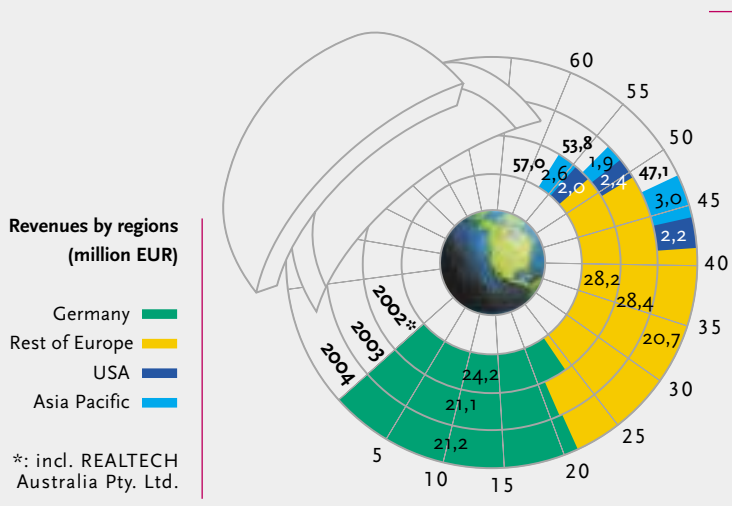
REALTECH's revenue fell 13 per cent in fiscal year 2004 compared to the previous year from EUR 53,824 thousand to EUR 47,075 thousand. This revenue growth was particularly affected by the departure of a substantial number of consultants from the REALTECH Italia subsidiary at the beginning of the year, leading to a substantial drop in revenue in the Consulting business field.

Although Consulting continued to make the largest contribution to revenue, the proportion has fallen since the previous year (down from 84 per cent to 79 per cent) and the revenue in this area fell by 18 per cent from EUR 45,314 thousand to EUR 37,284 thousand. In contrast, growth has been recorded in terms of revenues from licenses, maintenance, and supplementary services, which increased 15 per cent from EUR 8,510 thousand to EUR 9,791 thousand. In the fourth quarter, recording revenue of EUR 3,065 thousand, the company exceeded the three-million threshold in quarterly revenues for the first time. This meant that the proportion of Group revenue generated from software clearly rose over the past fiscal year to 21 per cent.

Foreign revenues amounted to EUR 25,849 thousand, or 55 per cent, compared to EUR 32,749 thousand, or 61 per cent in the previous year. This gave rise to a decrease of 21 per cent, or EUR 6,900 thousand. In contrast, revenues increased slightly (by 1 per cent) in Germany from EUR 21,075 thousand to EUR 21,226 thousand. The proportion of Group revenue recorded in Germany in the year under review was 45 per cent, as opposed to 39 per cent a year earlier.

As was the case in previous years, growth in the individual regions continues to be varied, with the past fiscal year being particularly affected by the developments in Italy. Revenue in the European region excluding Germany fell by 27 per cent to EUR 20,744 thousand, with the revenue decreasing in Italy but increasing in Spain and Portugal. The proportion of total revenues recorded in Europe excluding Germany fell from 53 per cent to 44 per cent. In the Asia-Pacific region,

C. Financial situation



Business development

In accordance with SFAS 144, the REALTECH Australia subsidiary that has been sold is shown in the consolidated financial statements under "discontinued operations". As a result, the figures for 2004 and 2003 are disclosed and explained excluding REALTECH Australia. Deducting the revenue and cost attributable to REALTECH Australia changes the effective revenue and income figures disclosed. The subsidiary's share of revenue and costs,



Having grown so rapidly, the company needs adequate new premises and moves into its new company building in Walldorf in 1999.

10 1999

primarily thanks to the positive growth of the subsidiary in New Zealand, revenues increased by 51 per cent from EUR 1,966 thousand to EUR 2,960 thousand, corresponding to 6 per cent of total revenues compared to 4 per cent the year before. Revenue in the US fell – entirely due to exchange rates – by 9 per cent from EUR 2,360 thousand to EUR 2,144 thousand. In contrast, the corresponding proportion of total revenues increased slightly from 4 per cent to 5 per cent.

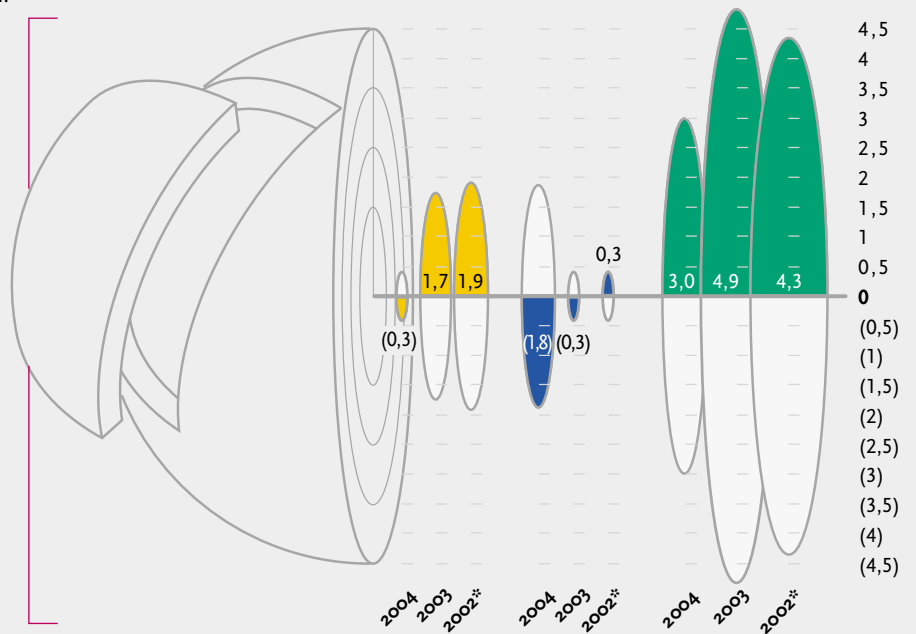
Earnings

Earnings before interest and tax (EBIT) fell sharply from EUR 1,674 thousand to minus EUR 296 thousand. EBITDA decreased by 61 per cent from EUR 4,483 thousand in the previous fiscal year to EUR 1,753 thousand.

Net interest income decreased from EUR 563 thousand to EUR 518 thousand due to the fall in interest rates. Earnings from associates clearly improved again in the year under review to EUR 162 thousand, compared to EUR 83 thousand the year before. This figure reflects, on the one hand, the pleasing income of e-city – a company in which REALTECH holds an interest of 49 per cent – and, on the other hand, the extremely positive growth of our interest in REALTECH Japan, which ended the fiscal year with clearly positive results. In the third quarter of the past fiscal year, REALTECH AG increased its interest in REALTECH Japan Ltd., Tokyo, from 48.78 per cent to 49.99 per cent. Economically effective as of January 1, 2005, the interest has now been increased to 54.10 per cent. The financial result was reduced by a EUR 116 thousand write-down on investments in Grau Data Storage AG.

Income taxes amounted to EUR 579 thousand (previous year: EUR 1,572 thousand). The losses carried forward for the Italian and Spanish subsidiaries have been capitalized. Otherwise, REALTECH continued to refrain from capitalizing losses carried forward for foreign subsidiaries. It should be noted that the depreciation mentioned with regard to interests in Grau Data Storage AG did not have the effect of reducing taxes.

As in previous years, the profit development varied greatly between the various companies in the REALTECH Group. In Germany, where revenue rose by 1 per cent, the gross profit margin was up on the figures for the previous year in both the Consulting and Software business areas. Moreover, with only slight increases in the costs for product development, the company succeeded in substantially reducing its expenditure in the areas of marketing, sales and distribution, and administration. Overall, therefore, income from operations at the German REALTECH companies was higher than in the previous year.



Earnings at REALTECH's subsidiaries in Italy, Spain, and Portugal deteriorated substantially compared to the previous year. The departure of a large number of consultants from the REALTECH Italia subsidiary led to a decline in revenue and negative EBIT. The negative income from operations in Spain is partly due to reduced income in the Consulting business area and partly due to the disappointing growth of the Products business area. In Portugal, the negative income from operations was caused by the development of sales and distribution structures in the Products business area. REALTECH USA recorded positive income from operations, pretty

■ EBIT
 ■ Net income
 ■ Cash flow
 *: incl. REALTECH Australia Pty. Ltd.



REALTECH's Executive Board is declared "Founder of the year" by VNR Verlag für die deutsche Wirtschaft. The publisher presents this distinction each year to a team of company founders, who have provided new impetus for the German economy.

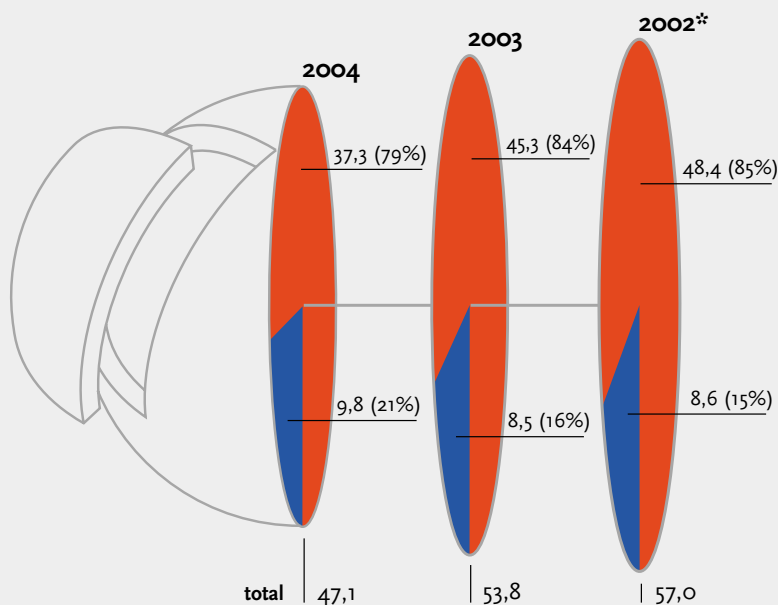


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much the same as in the previous year. Very positive income growth was recorded by the subsidiaries in Singapore and New Zealand, with REALTECH Singapore recording positive annual income for the first time since it was founded and REALTECH New Zealand clearly improving its income from operations.

On the basis of 5,092,452 shares (US GAAP), the company reported a loss per share of minus EUR 0.35 (compared to minus EUR 0.06 in the previous year).

Revenues by segments
(million EUR)



Consulting ■
Software ■

*: incl. REALTECH Australia Pty. Ltd.

The cost of sales totaled EUR 29,048 thousand, while the gross profit margin fell slightly from 38.6 per cent to 38.3 per cent. Research and development expenditure increased by 1 per cent to a total of EUR 4,641 thousand (previous year: EUR 4,573 thousand), or 9.9 per cent of revenue (previous year: 8.5 per cent). Likewise, sales and marketing expenditure increased proportionately. This totaled EUR 5,995 thousand (previous year: EUR 5,905 thousand) or 12.7 per cent of revenue (previous year: 11.0 per cent). Administrative costs were cut again in the past fiscal year from EUR 9,610 thousand to EUR 8,719 thousand, which meant that they amounted to 18.5 per cent (previous year: 17.9 per cent) of revenue.

► Appropriation of net profits

REALTECH's annual financial statements form the basis for a resolution to be passed by the General Meeting on the appropriation of earnings. The net income of REALTECH AG was greatly influenced by a value adjustment of EUR 2,344 thousand to the investment book value for REALTECH Inc. In addition, the loans amounting to EUR 1,680 thousand to REALTECH's subsidiaries in the US, Portugal, and Australia were fully adjusted. To compensate the loss carried forward from the previous year, as well as the net loss, the additional paid-in capital was reduced by EUR 3,679 thousand.

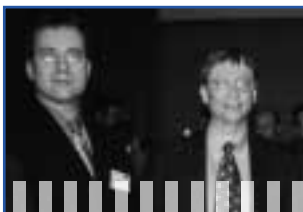
► Investment and financing

The REALTECH Group's cash flow from operating activities in 2004 was EUR 2,995 thousand – therefore lower than the high figure of EUR 4,887 thousand recorded the previous year. Investments in intangible assets and property, plant, and equipment amounting to EUR 896 thousand were fully financed from operations. Cash flow from financing activities totaled minus EUR 3,585 thousand (previous year: minus EUR 801 thousand). Cash outflow in the year under review essentially results from the full repayment of liabilities to banks amounting to EUR 3,835 thousand.

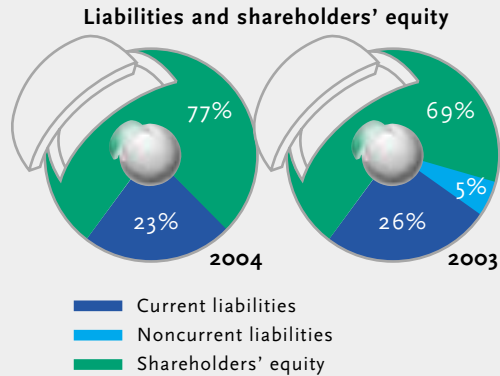
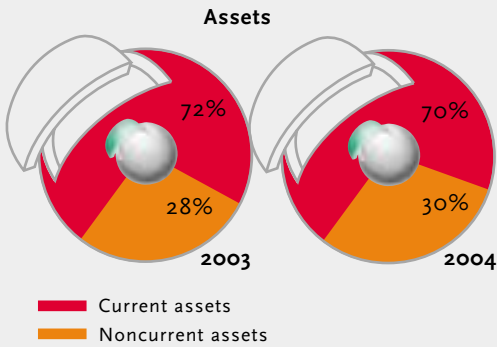
► Balance sheet structure

Total assets clearly fell in the year under review from EUR 63,546 thousand to EUR 55,290 thousand, while the equity ratio increased from 69 per cent to 77 per cent. The equity capitalization forms a sound basis for realizing further growth potential.

On the balance sheet date, REALTECH disposed of liquid funds and interest-bearing securities of EUR 21,357 thousand (previous year: EUR 23,758 thousand) and did not have any bank liabilities (previous year: EUR 3,835 thousand). Net liquid funds therefore improved from EUR 19,924 thousand to EUR 21,357 thousand.



REALTECH USA establishes a collaboration partnership with Microsoft for SAP consulting. This involves Microsoft recommending REALTECH's services to its customers for installations on Windows 2000 and SQL Server.



Consolidated balance sheet breakdown as of December 31

D. Acquisitions and alliances

During fiscal year 2004, the company's sales and distribution strategy placed a particular emphasis on developing additional indirect distribution channels through partnerships and collaboration. This was equally true of both the Software segment and the Consulting segment. At the same time, existing distribution channels were extended, new sales and distribution structures were created, and established distribution channels were enhanced.

▶ SAP partnerships

REALTECH collaborated intensively with SAP AG worldwide, based on the global partner status awarded by SAP for the segments of software, technology, support, and special mySAP CRM expertise. On top of this, REALTECH and SAP are also cooperating with one another at regional level. Here, REALTECH has certificates as a partner for SAP NetWeaver, SAP Enterprise Portal, and Business One. At the beginning of 2005, REALTECH Japan Ltd. attained the status of local SAP Technology Partner. Additionally, the company is also collaborating with SAP in terms of Linux development, the SAP Portal, and the Software Factory.

▶ Other partnerships

In May 2004, REALTECH established a technology partnership, revolving around the optimization of SAP infrastructures, with the US computer manufacturer Dell. As part of their collaboration, the two partners are assisting companies in setting up and operating SAP

systems based on hardware from Dell. In the same month, REALTECH agreed on an international partnership with MySQL AB, based in Uppsala, Sweden. The aim here is to support SAP customers as they change over corporate applications to the MaxDB database from MySQL. Since June 2004, REALTECH has also been working in close collaboration with Unisys Deutschland GmbH, an IT service provider and solution supplier based in Sulzbach. In this case, the range of joint services includes business process consulting as well as all aspects relating to the use of SAP system environments.

▶ Acquisitions

REALTECH AG increased its interest in REALTECH Japan Ltd. to a value of 50 per cent minus one share in September 2004. In December, REALTECH AG purchased additional shares, gaining a majority shareholding (54.1 per cent) for the first time with effect of January 1, 2005.

In January 2005, REALTECH AG sold its Australian subsidiary, REALTECH Australia Pty. Ltd., Sydney, in the context of a management buy-out. This step, effective from December 31, 2004, was necessary due to the fact that income in this region remained unsatisfactory.



SAP AG awards REALTECH the status of software partner. REALTECH receives this quality seal for its IM/3 and theGuard! products, which have proven to be completely compatible with SAP's e-business package.



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E. Research and development

REALTECH maintained close contacts with existing and potential customers in fiscal year 2004 as usual. The knowledge gained from numerous technical discussions has been directly incorporated into product development and has helped to boost demand for software products.

The main focus of development activities was on theGuard! System Management Suite. Companies use theGuard! in order to monitor and optimize IT systems enterprise-wide. What users and potential customers wanted with regard to this product, which had previously consisted of a series of individual products, was to see a variant that combined the various products more closely in a single application. REALTECH responded to this feedback and, in the form of theGuard! ServiceCenter, developed a new product that meets the demands for more integration. At the same time, other functions such as asset management were added in order to accommodate other current and future market trends.

REALTECH also greatly enhanced the two central components of theGuard!, namely NetworkManager and ApplicationManager. Amongst other things, the NetworkManager solution is now able to map decentralized network structures comprehensively and analyze signal paths, including those for transmitting voice in data networks (Voice Over IP). The latest version of ApplicationManager, which companies use to monitor key applications such as SAP, Oracle, and e-mail systems, now supports all modern 64-bit operating systems. What's more, the version has been enhanced in central places in order to make it even easier to use, even in extremely large application infrastructures.

As for its SAP products TransportManager and IM/3 InterfaceManager, REALTECH has essentially made enhancements in the areas of security and reporting. This was done in view of the fact that growing numbers of customers are implementing the solutions in large and distributed SAP applications. Security and end-to-end control over all changes to central SAP solutions are therefore high up on the list of customer priorities.

Research and development costs in fiscal year 2004 amounted to EUR 4.6m – a similar figure to that for the previous year. In relation to revenue, the proportion of these expenses rose from 8.5 per cent to 9.9 per cent in the same period. The number of employees working on research and development, at 59 specialists compared to 60 in the previous year, remained pretty much constant. REALTECH is continuing to develop its software solutions at its sites in Walldorf and Schweitenkirchen.

In 2005, REALTECH expects its software business area to make an increasingly positive contribution towards consolidated earnings. For this reason, REALTECH is continuing to expand its indirect and direct distribution channels. Above all, the company hopes to boost income by intensifying its partnership activities. The collaboration with US-based NetIQ that REALTECH established in 2004 is set to help the company position its own products more in other geographic regions. Simultaneously, the efforts to streamline the product portfolio will make the future cost situation more favorable in this business segment.

F. Human resources growth

In 2004, REALTECH adjusted its employee numbers in line with market circumstances. A restructuring program, aiming to cut personnel costs in administration, was implemented successfully. At the same time, several international subsidiaries hired new staff in order to satisfy an increased demand for consulting services. On the German job market, in particular, there were hardly any consultants available with the required qualifications, making it extremely difficult to find suitable employees. Overall, the Group reduced its number of employees compared to the previous year because customers continued to be reluctant to invest in new IT.

On December 31, 2004, the REALTECH Group had 537 employees on its payroll worldwide – 40 employees, or 7 per cent, fewer than twelve months previously. In REALTECH's domestic market, staff was reduced by 4 per cent from 226 to 218 employees, which meant that 41% (previous year: 39 per cent) of all the company's employees were employed in Germany at the end of the year. The number of employees working at foreign subsidiaries fell 9 per cent from 351 to 319.

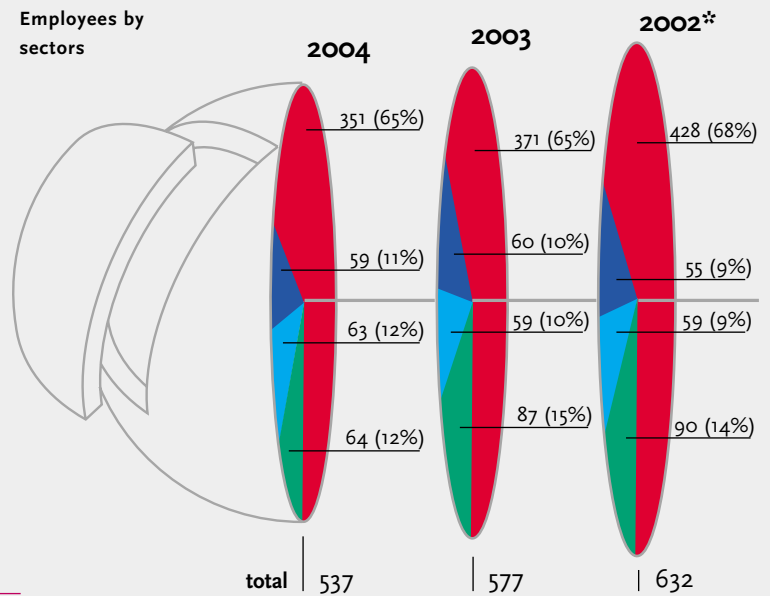


REALTECH and SAP intensify their strategic cooperation. As the first "Global Alliance Partner Support" worldwide, REALTECH helps companies to draw maximum benefit from the SAP e-business platform. In addition, in REALTECH's role as "Global Technology Partner", the company's theGuard! software is integrated into solutions in SAP's mySAP.com product family.

This result is based on contradictory developments. On the one hand, staff numbers declined at REALTECH Italia, especially during the first quarter of 2004. On December 31, 2004, the Italian subsidiary had only 184 employees – 52 employees, or 22 per cent, down on the figure at the end of the previous year. In contrast, employee numbers rose in Spain by 15 per cent to 77 employees and in Portugal by 80 per cent to 18 employees. As a result of new staff hired in New Zealand and Singapore, REALTECH employed a total of 31 employees in the Asia-Pacific region on December 31, 2004 – 11 per cent less than the figure one year previously – while the US subsidiary recorded a decrease from ten to nine employees.

The Consulting business area continues to be the main emphasis of the Group, accounting for 65 per cent of all employees as in the previous year. At the end of 2004, the company employed a total of 351 consultants, which was five per cent or 20 employees fewer than a year previously. This change was influenced on the one hand by the decline in Italy and, on the other hand, by additions at other subsidiaries, especially those in Spain and Portugal. As for the Software business field, staff numbers rose slightly during the course of 2004. Whereas things hardly changed in the area of development, which had 59 employees compared to 60 the year before, there was an increase in numbers, to 63 employees, in sales and

Employees by sectors

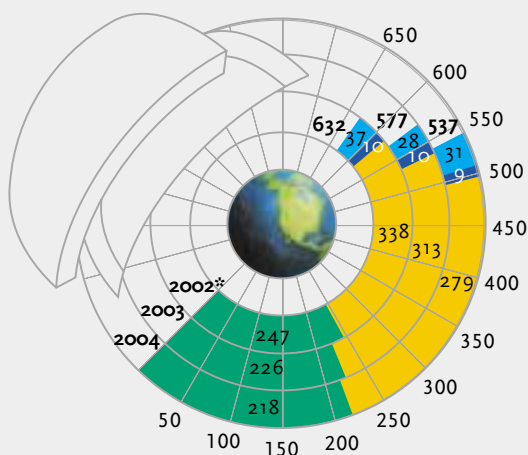


distribution as a result of the company further expanding its market presence. With a view to reducing costs in administrative areas, REALTECH reduced its administrative staff by 23 employees, or 26 per cent, to the current figure of 64 employees.

- Consulting
- Development
- Sales
- General and administration

*: incl. REALTECH Australia Pty. Ltd.

Employees by regions

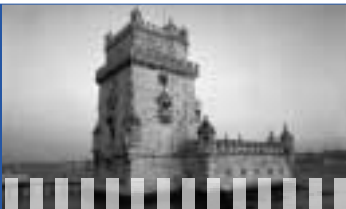


- Germany
- Rest of Europe
- USA
- Asia Pacific

*: incl. REALTECH Australia Pty. Ltd.

G. Risk report

As a result of its international activities as well the increasing complexity and dynamic nature of its business, the REALTECH Group is naturally subject to various risks. These risks are directly associated with the company's business activities. Without being willing to take risks it is impossible to make the most of opportunities.



Having been successful in Spain, REALTECH now also enters the growth market of Portugal, establishing REALTECH Portugal System Consulting, Sociedade Unipessoal, Lda.



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The "Gesetz zur Kontrolle und Transparenz im Unternehmensbereich" (KonTraG – Act on Control and Transparency in Business) obliges the executive boards of public companies to set up a suitable risk management system and an internal monitoring system. In this way, developments that may affect the continued existence of a company should be recognized in good time.

► Risk management

The basic function of REALTECH AG's risk management system is to systematically identify and assess various types of risks and risk profiles. This is done with the aid of early warning, reporting, and controlling tools.

REALTECH's early warning system is an element of its strategic planning – the formulation of quantitative targets. The management recognizes deviations from long-term specifications by means of strategic analysis as well as during annual actual forecasts and projections. The system is based on monthly revenues, costs and earnings reports, which are supplemented by quarterly reports published with regard to operating assets. Financial control measures are used to determine and analyze deviations on the basis of the early warning and reporting systems. This provides the companies with decision-making aids for potential corrective measures. REALTECH deals with possible management risks by means of internal reporting with detailed forecasting and control processes.

The areas of risk listed below could have a detrimental effect on REALTECH's business, financial situation, and results from operations. In addition, other risks that cannot be predicted at this point in time may also have a negative influence on business.

► General economic risks

The reluctance to invest that can be traced back to 2002 continued to be relevant for fiscal year 2004. As for 2005, leading economic research institutes are forecasting slightly improved economic prospects. In view of its financial stability, proximity to customers, strategic orientation, and the wide range of measures taken to detect and deal with possible risks, REALTECH is confident of achieving all projected targets in spite of the risks described. No risks that endanger the company's continued existence are currently apparent.

► Industry risks

REALTECH anticipates that competition on the IT market will increase even further. Mergers, the entrance of large new competitors, or a market consolidation could have a negative effect on revenues and margins at REALTECH.

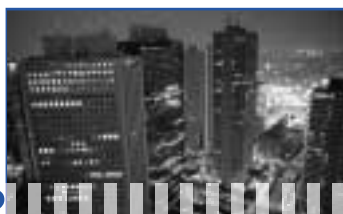
Concentrating on products from SAP AG makes REALTECH largely dependent on the market acceptance of this partner. REALTECH anticipates that the market for SAP solutions will continue to grow as SAP AG has been able to further expand on its leading market position. Moreover, SAP has expanded to such a size on the market that the confirmed takeover talks with industry leader Microsoft in 2004 progressed without result.

REALTECH's forecasts are based on the assumption that demand for system management products will continue to increase at the pace predicted by industry analysts. When it comes to developing its solutions, moreover, REALTECH pays great attention to customer requirements, hoping to maximize market acceptance. The company is, however, not in a position to guarantee that this acceptance will also remain constant in the future. In particular, the fact that competitive pressure is constantly increasing – amongst other things due to takeovers and the associated market concentration – may have the result that REALTECH products do not obtain the desired market access.

► Operative risks

REALTECH needs to take numerous potential risks into account with regard to its consulting and product business. Despite numerous precautions, the Group is unable to guarantee that it will succeed in detecting and neutralizing all risks at an early stage. Moreover, several of these risks lie outside REALTECH's sphere of influence.

Principally, REALTECH is subject to the risk that its products and services may not be sufficiently accepted by the market. As a result of a rapid technology changeover or erroneous development activities, for instance, customer requirements may not quite be met. In addition, cyclical fluctuations may postpone expected revenues and income in the short or medium term.



REALTECH extends its presence in the Far East, opening REALTECH Japan Co., Ltd., as a joint venture involving, amongst other companies, Microsoft Japan and Nihon Unisys.



New REALTECH products and versions are subject to a comprehensive quality assurance procedure. Nevertheless, there is still a danger of errors occurring that have a negative effect on the company's image. Identified errors could cause a delay in new products being brought to market, with the result of additional costs and lost revenues.

Events that occur as a result of such risks may detract from the validity of original assumptions regarding future business developments as well as forecasts regarding revenue and income. At present, REALTECH assumes that general economic conditions will have no significant negative impact on its business development. Nevertheless, unexpected changes in the economic situation could have a detrimental effect on the Group's revenue and income.

▶ **Personnel risks**

REALTECH's highly-qualified employees make an important contribution towards the company's business development. The company anticipates that it will continue to be able to adequately meet its requirement for specialists and executive managers in the relevant job markets. Should the company prove unable to do this, this could have a negative impact on business development.

▶ **Financial risks**

REALTECH trades primarily in the euro zone, with the result that the company is only exposed to marginal risks from exchange rate fluctuations. In order to cover the residual exchange rate risk, the Group implements targeted exchange rate management measures. Other financial risks are averted by a credit management system as well as by stringent receivables management and checks on creditworthiness.

▶ **Insurance risks**

The REALTECH Group is insured against claims for damages, including claims under liability law. This should limit the possible consequences of remaining risks, if not eliminate them altogether. The extent of this insurance cover is regularly reviewed and updated as necessary.

▶ **Other risks**

Risks also result from rules and laws relating to tax, competition, and patents. In order to counteract such risks, REALTECH bases decisions and the design of business processes on extensive legal consulting both by its own experts and by declared external experts.

Although REALTECH does everything possible to protect its rights, software, and intellectual property, essentially through copyright and trademarks, the company cannot entirely eliminate the possibility of its products being copied or existing rights being misused.

New laws or changed jurisprudence may give rise to legal rules that also effect past issues. REALTECH has formed the necessary balance-sheet accruals for such risks.



📄 **H. Outlook**

The economic prospects and expectations improved slightly in all the core markets of REALTECH AG during the course of 2004. The general skepticism that had predominated is now gradually giving way to cautious optimism. Global political tensions, high oil prices, and exchange rate problems may still be dampening the investment behavior of companies. Nevertheless, market researchers are observing that, in all industries round the

globe, medium-sized businesses and major enterprises alike have come to the end of a phase of passive restructuring and now plan to follow active investment strategies in the future. Now that cost-cutting programs have been completed in many places, decision-makers have returned to setting themselves at least modest growth and expansion targets. The prevailing fundamental idea is that, with targeted investments and gains in efficiency alone, companies can still set the course on the market and secure themselves a long-term competitive edge.



In a direct comparison to the GIGA Information Group, REALTECH's theGuard! is counted among the three most powerful solutions – even up against competitors such as IBM, HP, Microsoft, BMC, and CA.



The annual "Top 100" survey under the patronage of Lothar Späth (a former premier of Baden-Württemberg) reaches the conclusion that REALTECH is among the 100 most innovative medium-sized companies in Germany in 2003.



MANAGEMENT REPORT


This cautious, but already tangible change in business strategies is also directly reflected in the role of IT organizations and their projects. While working on customer projects over the past few years, REALTECH customers have as a rule been confronted with a really central goal, namely to achieve short-term savings as quickly as possible in order to accommodate limited IT budgets. As the year under review progressed, however, the consultants watched the focus in many companies progressively shift from pure cost-cutting to strategic cost control. Companies want to invest again if it is clear that the expenditure for IT projects, services, and staff will pay off and help them achieve their business goals.

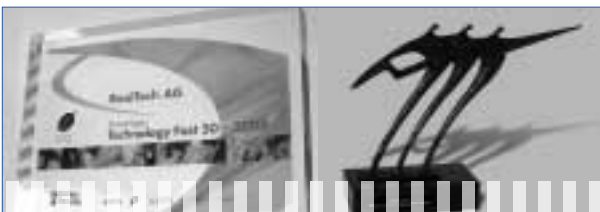
Various surveys agree that the priorities for the year 2005 will include not only postponed investments in replacement hardware and software but also projects that optimize IT-supported business processes and therefore maximize the commercial value of such processes. Amongst other things, market researchers anticipate a growing demand for SAP solutions – especially on the part of medium-sized companies. Under these circumstances, REALTECH's range of solutions and good references put the company in an excellent position to benefit from a progressively recovering IT demand over the next few years.

At present, however, REALTECH AG is still undergoing a phase of change itself, consolidating all its capacities and competencies with a view to enhancing both efficiency and effectiveness. The general goal that the company management has defined for 2005 is to systematically boost profitability in the corporate group. In terms of research and development, personnel recruitment, employee qualifications, sales and distribution, and marketing, REALTECH will be specifically concentrating on particularly profitable business areas and regions. One important and demanding task in 2005 will involve taking measures at the Italian subsidiary, which has usually been very successful, to bring it back into the red after a year of negative income. The same goes for the subsidiaries in Spain and Portugal. Moreover, having expanded its collaboration and alliances with distribution and solution partners during the year under review, REALTECH hopes that the resulting revenue will already increase significantly in 2005.

It is widely recognized that the urgent IT challenges faced by companies can be mastered very effectively by the range of services and solutions offered by REALTECH AG, which have already proven their worth on multiple occasions. With its three pillars of IT optimization, IT consolidation, and innovation/Web technology, the company's Consulting division is excellently equipped to meet real customer requirements. Nevertheless, the company's management has not failed to realize that this competitive edge will only be maintained if the company continues to invest in new expertise, products, and services.

In fiscal year 2005, REALTECH's IT optimization experts will be working on additional efficiency-boosting methods and procedures, with the aim of improving the performance of IT systems while minimizing computer center operation costs. When it comes to IT consolidation, the main emphasis is currently on the aims of making hardware and software environments more transparent, establishing more efficient processes, and refining project management. It goes without saying that REALTECH will pay attention in the future to ensuring that its technology consultants continue to wield superior knowledge that sets them apart from competitors. A particular emphasis will be placed in 2005 on services relating to the SAP NetWeaver integration platform – from strategic planning and benefit-oriented implementation to secure operation. With a view to ideally meeting the rising demand for such services, REALTECH has already taken measures, as part of a special project, to substantially improve the knowledge transfer on this subject across all sites through an internal development project.

Last but not least, another goal of the company's management in 2005 is to improve the general perception of REALTECH, together with its strengths and competencies, as an IT supplier and partner able to provide companies with proficient, solution-oriented support during every phase of hardware and software projects. In conjunction with sales, distribution, and marketing, therefore, the company will primarily concentrate on communicating one very important distinctive feature, namely that, as one of the few IT service providers to operate across all industries, completely independent of hardware manufacturers, REALTECH always offers its customers the best and most efficient solution. 



According to annual list of Deloitte & Touche "Technology Fast 50" companies, REALTECH is again one of the 50 most rapidly expanding companies in Germany and, also being included in the "Technology Fast 500", is among the 500 fastest growers in Europe..

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