Annual Report 2000

mensch maschine

CAD as CAD can

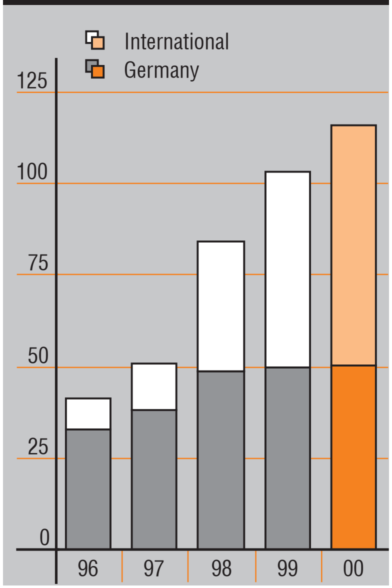
Mensch und Maschine at a glance

All amounts in million EUR (unless stated otherwise)	1996		1997		1998		1999		2000	
Revenue	41.1		50.7	+23%	84.5	+67%	103.3	+22%	115.84	+12%
Germany	33.1	81%	38.0	75%	48.6	58%	50.0	48%	50.33	43%
International	8.0	19%	12.7	25%	35.9	42%	53.3	52%	65.51	57%
EBITDA	1.4		4.0	+180%	4.2	+5%	5.1	+21%	7.29	+43%
EBIT	0.6		3.1	+394%	2.6	-15%	2.7	+2%	4.01	+50%
Cashflow	1.1		1.7	+64%	3.4	+94%	3.6	+7%	4.68	+30%
Pretax profit	0.4		2.9	+674%	2.5	-13%	2.2	-13%	3.23	+46%
Earnings (adjusted)	0.5	1,3%	1.3	2,6%	1.8	2,1%	1.3	1,3%	1.56	1,3%
Protit per share (EUR)			0.35		0.42	+19%	0.31	-26%	0.36	+16%
Number of shares in million / diluted			3.800		4.206	+11%	4.289	+2%	4.346	+1%
Dividend EUR			0.13		0.18	+40%	0.23	+29%	0.28	+22%
Total assets			23.3		45.3	+94%	62.0	+37%	80.77	+30%
Shareholders' equity			9.9	42,3%	23.5	51,8%	23.9	38,6%	24.91	30,8%
Employees	97		96	-1%	141	+47%	214	+52%	228	+7%
thereof international	18	19%	21	22%	54	38%	97	45%	104	46%

Management report

Record Sales
With revenue up 12% to EUR 115.8 million Mensch und Maschine Software AG (M+M) marked a new sales record during fiscal year 2000 and further enhanced its market position as one of Europe's leading providers of CAD solutions (CAD = Computer Aided Design) against an unfavourable market trend. The newly acquired subsidiaries in England and Sweden, which were consolidated from July 1 and October 1, respectively, contributed their part to this achievment.

Group revenue (in million EUR)



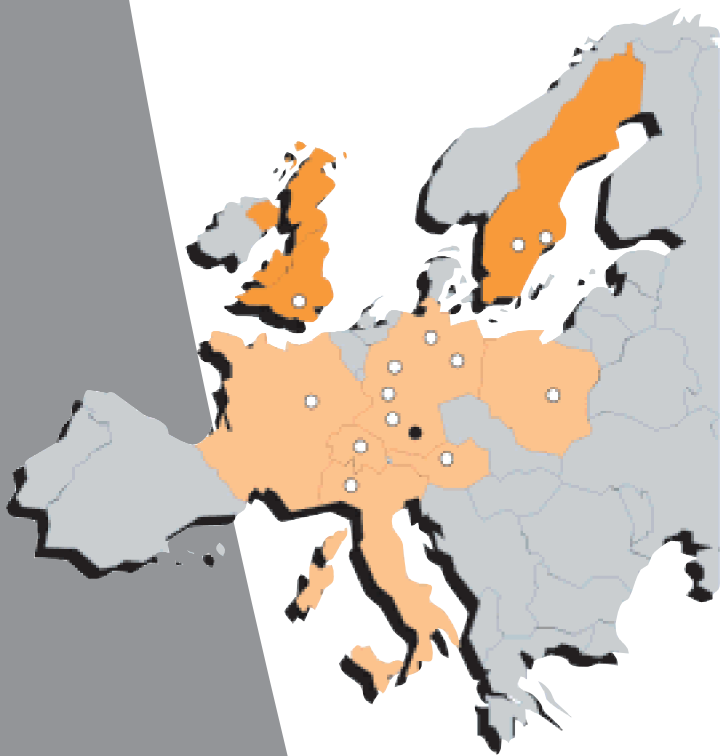
New sales record: At EUR 115.8 million, revenues were up 12% over past year, with increases mainly coming from international operations.

M+M - The Highlights 2000

- Revenue +12% to EUR 115.8 million
- Strong profit increase:
  - EBITDA +43% to EUR 7.3 million
  - EBIT +50% to EUR 4.0 million
  - Aftertax earnings (adjusted): +16% to EUR 1.5 million
  - Dividend +22% to EUR 0.28
- Expansion to Northern Europe: After acquisitions in England and Sweden M+M is now present in 8 European countries
- Market leadership further expanded: M+M's installation base is now well above 250,000 CAD seats
- Extended technological base: Ten strategic shareholdings in technology firms reinforce M+M's market position
- Successful use of Internet:
  - Web shop in the German speaking area is widely accepted
  - Improved efficiency and flexibility along with lower cost level
  - 2001: Expansion of Internet concept to France, Italy and Sweden

The M+M Headquarters in Wessling near Munich.

Mensch und Maschine is now active in eight European countries as one of the market leaders with more than 250,000 installed seats. Over 40,000 have been sold during fiscal year 2000. In January 2001, the former Swiss competitor CAD Distribution AG, Basle/Lausanne, was acquired by way of share swap, further underlining M+M's future market position.



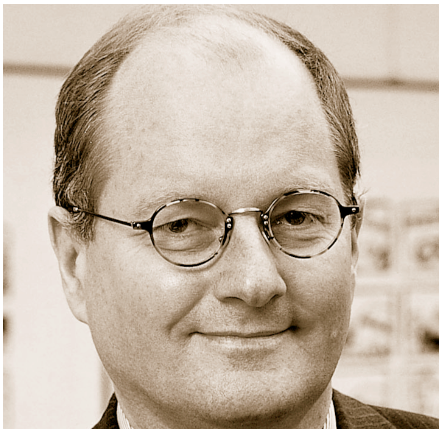
Strong increase of profitability

M+M's profitability developed even better than sales: Earnings before interest, tax, depreciation and amortization (EBITDA) rose 43% to EUR 7.3 million (1999: 5.1). After deduction of amortization and depreciation amounting to EUR 3.3 million (1999: 2.4 / +35%), EBIT reached EUR 4.0 million (1999: 2.7 / +50%). Pretax profit amounting to EUR 3.2 million was 46% higher than previous year's EBT of EUR 2.2 million.

Aftertax earnings amounted to EUR 1.5 million (1999: 1.0 / +43%) before adjustments. Adjusted by extraordinary effects, earnings were EUR 1.6 million (1999: 1.3 / +17%). Earnings per share amounted to EUR 0.36 (1999: 0.31 / +16%). Earnings per share were calculated on a fully diluted basis including stock options executable but not yet executed on Dec 31, 2000. Undiluted earnings per share amounted to EUR 0.37.

HGB earnings higher than IAS earnings

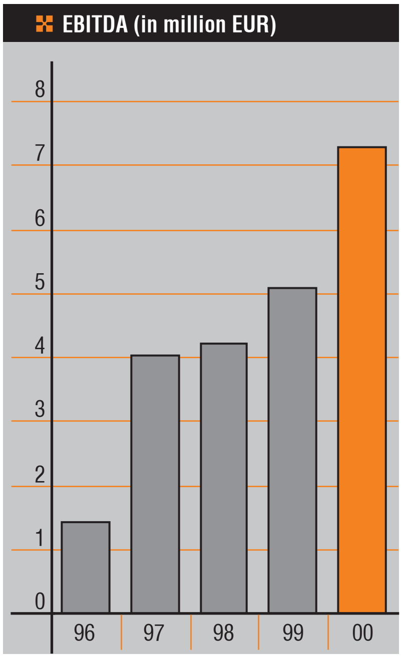
All results stated above were calculated according to IAS. Aftertax earnings according to German accounting standard HGB were significantly higher for fiscal year 2000: It amounted to EUR 1.9 million (unadjusted) or EUR 2.0 million (adjusted). See transition from IAS to HGB in the notes.



Adi Drotleff, CEO

Strong growth in international business
Sales growth during fiscal year 2000 was mainly driven by international operations with revenues up 23% to EUR 65.5 million (1999: 53.3), contributing 57% of group sales (1999: 52%). Sales in Germany increased slightly to EUR 50.3 million (1999: 49.9 / +1%).

For the first time, international operations also dominated the group's profit with an EBITDA return rate of 7.2% (Germany: 5.2%), causing a favourable tax effect: A major share of group earnings came from daughter companies having loss carryforwards. Therefore, less than half of the income tax amount of EUR 1.6 million shown in the IAS P&L statement are really paid taxes: A subamount of EUR 0.9 million is non-cash, refering to write-downs of tax assets.

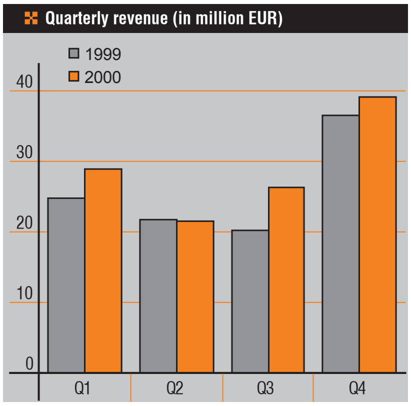


Growth in earnings before interest, tax, depreciation and amortization (EBITDA) clearly outperformed sales growth - increasing by 43% to EUR 7.3 million.

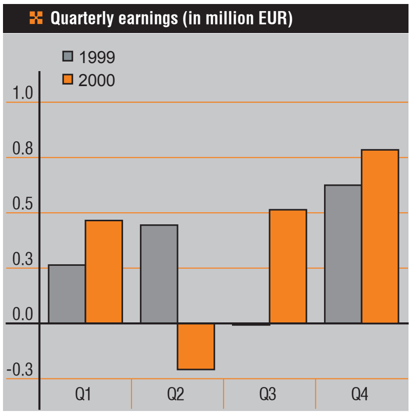
Peter Baldauf, VP Sales

Excellent fourth quarter

The seasonal development of fiscal year 2000 again showed the strong fourth quarter typical for M+M, contributing 33.8% of sales and approximately half of earnings. On the other hand, the second quarter 2000 was similarly disappointing for M+M like for many other software vendors.



Excellent fourth quarter: It contributed about one third to sales and approximately 50% to earnings of fiscal year 2000.



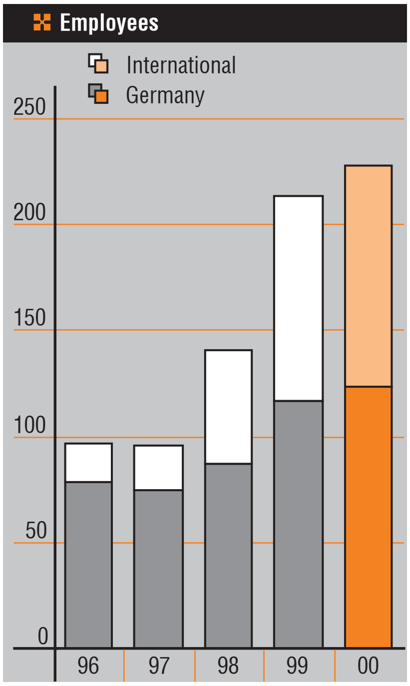
Growing verticals and service revenues

Looking to product group segmentation, the positive trend from the previous years has continued: The shares of 'Verticals' and 'Service revenues', both standing for good long term margins, further increased to 54.3% (1999: 51.3%).

This trend was positively impacted by the consolidation of service provider Staufen-Akademie acquired beginning of 1999 as well as by the continuing high investments in software development and the ten technology firms in which M+M holds strategic shareholdings.

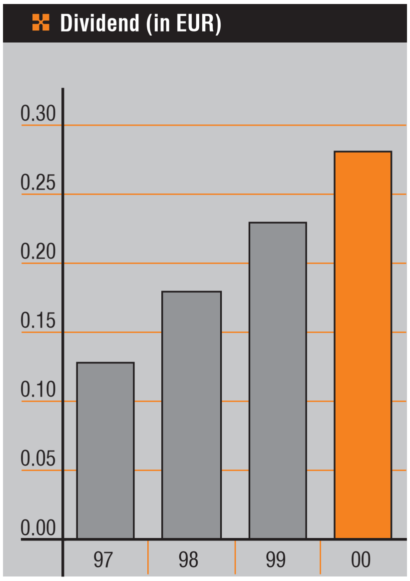
Moderate increase of headcount
The number of employees grew more slowly than sales by only 7% to a yearly average of 228 people (1999: 214), of which 104 worked for international operations (1999: 97).

On Dec 31, 2000, group headcount was 240 people (Dec 31, 1999: 216), with 122 working in international operations (1999: 93). Personnel expenses in the group only increased by 5% to EUR 11.5 million (1999: 10.9), which had significant impact on the achieved improvement of profitability.



The moderate headcount increase during fiscal year 2000 had significant impact on the achieved improvement of profitability.

Dividend increase of 22%
The management board suggests payment of a dividend of EUR 0.28, up 22% on last year's EUR 0.23 dividend.



Mensch und Maschine is one of the few Neuer Markt listed companies being profitable and paying dividend year after year - for fiscal year 2000, suggested dividend payment is up 22% on previous year.

Investments

During the year under review, the M+M group invested EUR 16.4 million (1999: 8.3). An amount of EUR 7.6 million thereof is allocated to the acquisitions in England and Sweden, EUR 1.8 million (1999: 1.8) to software development and EUR 5.4 million (1999: 2.8) to financial assets, mainly strategic shareholdings in technology firms within M+M's market environment.

Wide strategic shareholdings portfolio

On Dec 31, 2000, the portfolio of strategic shareholdings comprised the following ten companies:

Strategic technology shareholdings

Company	Technology
RCT GmbH, Haar near Munich	Automation for the shoe industry
ECS GmbH, Donzdorf near Stuttgart	CAD software for electrical engineering
DATAflor AG, Göttingen	Solutions for gardening and landscaping
AIM GmbH, Dachau	EDM - Engineering Data Management
SOFiSTiK AG, Munich	Software solutions for civil engineering
YELLO! AG, Wiesbaden	Visualization and Animation
CYCO BV, Netherlands	EDM - Engineering Data Management
CTB GmbH & Co KG, Buchholz near Hamburg	Software solutions for architects
CCS GmbH, Stuttgart	CAD/CAM for mechanical engineering
C-Plan AG, Gümlingen, Switzerland	GIS - Geographical Information Systems

For future development of the individual companies in this portfolio, the management board sees three principal options:

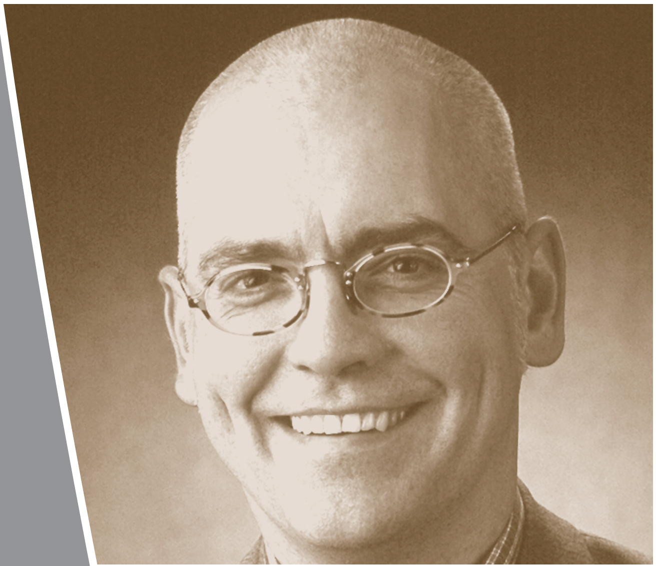
1. Long term investment:
As all of these companies are working in the market environment of M+M and strengthen the group's market position, keeping a long term investment makes sense in any individual case. Additionally, the shareholdings were purchased at moderate conditions (the ten investments total EUR 10.1 million, so the average investment per shareholding was only EUR 1.0 million), promising a good financial return from investment mid to long term.

2. Value development and Going Public
As far as possible and applicable, M+M supports the development of individual technology firms targeting their own IPOs. With regard to the value development of the portfolio, this certainly is the most attractive option, especially taking into account the possibility of tax free sales profits for shareholdings valid in Germany from 2002 on. However, an IPO of a shareholding will not necessarily mean that M+M will sell shares. This will be a question of the strategic importance of the M+M shareholding for both parties after the IPO.

3. Majority acquisition / group integration
This is exactly the opposite of option 2. It is applicable in case of particular strategic importance of a shareholding. In the past, this option was taken for Staufen-Akademie, in which a minority share had been purchased in 1998 and the 100% acquisition was performed end of 1999. As well, the M+M share in CCS GmbH was increased to 60% in March 2001, being fully consolidated beginning April 1, 2001. CCS's main product line is EUKLID, a high end CAD/CAM solution for forging and foundry practice, mould and tool making, which strengthens the M+M group's proprietary technology base. To document this focus more clearly to the market, CCS GmbH will be renamed to EUKLID Software GmbH along with the majority takeover by M+M.

As all three strategic options are equally valuable from M+M's perspective, each company in the portfolio can develop to its individual optimum. The entrepreneurial independence of founders, managers and main shareholders is clearly conserved, which is an important competitive advantage for technology firms. On the other hand, M+M can fully bring in its strategic power, creating a clear win-win situation.

Michael Endres, VP Marketing



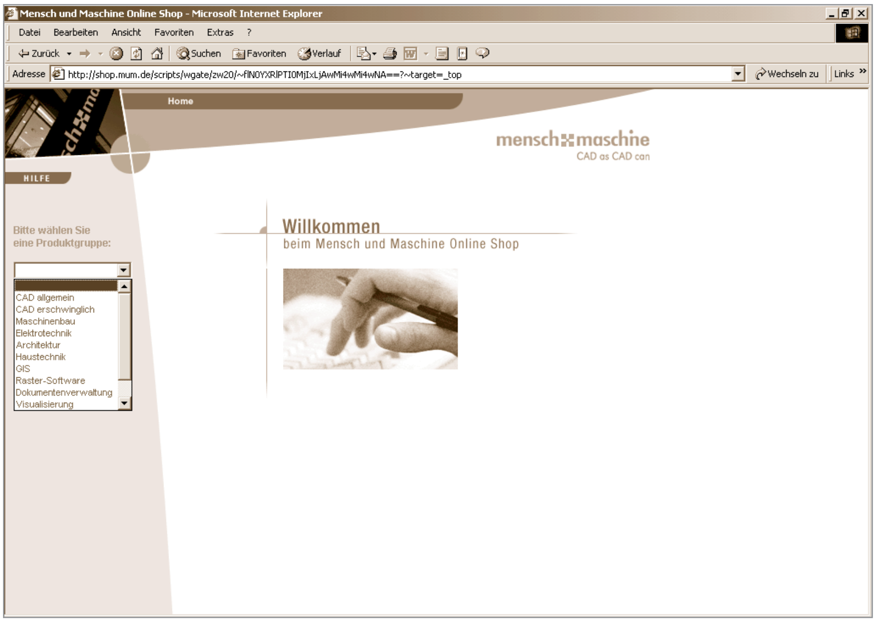
Jens Jansen, VP Technology

Internet integration of business processes
Great progress has been achieved during the past year in the project of integrating M+M's business processes via the Internet. The web shop for M+M autorized dealers, which started at the beginning of year 2000 in the german speaking area, was extraordinarily well accepted. Until mid year, the share of orders received electronically had settled at a level of 55-60%, allowing for respective reduction of personnel expenses in the order processing department - while speeding up processing time per order.

During the second half of the year, introduction of mySAP.com was prepared for the French operations, allowing for an on-schedule transfer of all business processes in France on Jan 1, 2001.

This prepared ground for the implementation of the web shop in France scheduled for second quarter 2001. Later this year, the Italian and Swedish operations will follow.

Further current projects in this area are the interfacing of customers' ERP systems to increase the share of web based orders, and web hosting, a shop-in-shop offer for M+M dealers, already in the test phase since March 2001.



An important milestone on the way to integration of all business processes via the Internet: The M+M web shop, through which already more than half of all orders in the german speaking area come in electronically, will be opened in France, Italy and Sweden during 2001.

Mensch und Maschine today is one of the frontrunners in profiting from the internet in the B2B area (Business-to-Business). The advantages of this strategy for M+M are obvious: On one hand competitive advantage through improvement of efficiency and flexibility for the customer, on the other hand a decreasing expense rate in the mid to long term.

The fact that M+M's personnel expenses increased slower than sales during fiscal year 2000 can be viewed as the first visible success of this strategy.

Balance sheet

Total assets climbed to EUR 80.8 million (1999: 62.0 / +30%), mainly driven by the investments of fiscal year 2000, increasing non current assets to EUR 28.4 million (1999: 16.6 / +71%). Higher inventories amounting to EUR 19.1 million (1999: 13.5 / +41%) also contributed to this development. Inventories were temporarily increased to gain purchase advantage regarding a general price increase announced for the beginning of 2001 by the main supplier.

Asset growth was primarily financed by current liabilities, bringing accounts payable up 26% to EUR 23.1 million (1999: 18.4) and bank credits up 74% to EUR 24.9 million (1999: 14.3). Shareholders' equity rose 4% to EUR 24.9 (1999: 23.9), resulting in an equity ratio of 30.8% (1999: 38.6%).

Risks

The operations and activities of the M+M Group are subject to various risks customary in this business and the group takes the appropriate precautions necessary to preclude them. In detail, such risks comprise:

Credit risks: Bad debt risks are avoided with customer secured credit insurance, individual and general bad debt provisions, as well as by means of streamlined receivables management. Also favourable in this respect is the fact that operations are divided among many individual customers each of which carries clearly less than 5% of the total revenue.

Warehouse and transport risks: These risks are generally covered by corresponding insurance contracts. A risk of loss in value during warehousing can be considered virtually non-existent since the suppliers' software product contracts always comprise a price, update and stock rotation clause.

Sales risks: As with every other supplier of standard software, M+M is subject to software market and product cycles, especially those of the CAD market.

Such risks are generally avoided as far as possible by the vertical and regional division of the M+M Group as well as by the supporting of several product lines. While these risks can be counteracted with a certain cost elasticity, they may not always be fully compensated.

Personnel risks: As an enterprise in the software industry, M+M is in principle subject to the prevailing lack of qualified specialists, although the group has always been quite successful in this realm in the past. Our distinctive corporate culture and open remuneration concept have been particularly instrumental in keeping employee turnover exceptionally low. There have rarely been any problems in filling open positions.

The risk of dependence upon key top management people has been counteracted by appointing five persons to the management board as well as by strengthening the secondary management level.

Supplier risks: While the concentration on the AutoCAD technology of main supplier Autodesk represents a certain dependency in respect of its development, market competence and operational policy, this risk is diminished by corresponding commitment contracts in the short and medium term.

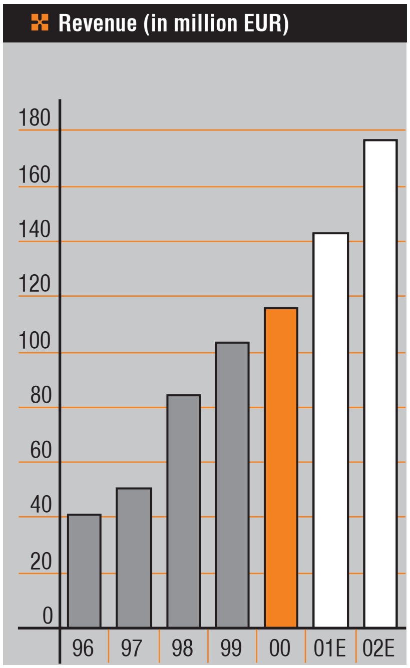
Losses at subsidiaries and shareholdings: The risk that contrary to anticipated positive development, negative development will proceed to the point of total loss, is especially inherent in newly acquired shareholding and subsidiary relationships. M+M management firstly counteracts this risk by means of a streamlined management of its shareholdings in order to recognize any possible problems in a timely manner, and secondly by ensuring adequate risk discount on the purchase price and by facilitating diffusion of risk by means of many relatively small individual shareholdings.

Peter Schützenberger, CFO

Positive outlook on 2001 and 2002
The M+M group feels well prepared for fiscal year 2001, though the climate in the software and CAD market will probably remain unfavourable. Targets for 2001 are a revenue increase by nearly 25% to approximately EUR 143 million and further disproportionate earnings growth in the order of 50% to about EUR 0.55 per share. An EBITDA of EUR 10 to 11 million and aftertax earnings of EUR 2.3 to 2.6 million are targeted for 2001.

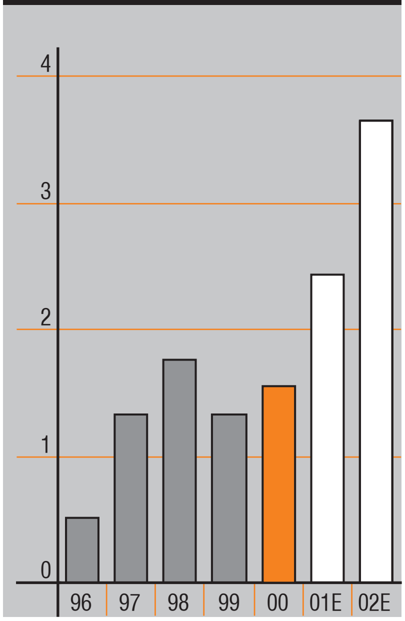
Again, about one third of sales and half of earnings are expected for the fourth quarter. International operations are once again estimated to contribute the major part of earnings, while domestic results will keep showing some load from pioneering the development of group infrastructure.

For fiscal year 2002, management is targeting further sales increase by 20-30% to EUR 170-185 million and another earnings growth in the order of 50% to EUR 0.80-0.90 per share.



For the two years to come, the M+M group feels well prepared and targets revenue increases in the order of 25% per annum.

Earnings (IAS adjusted, in million EUR)



While aftertax earnings did not develop in line with sales increases in the last three years, they are estimated to follow up now with growth rates around 50 percent per annum during 2001 and 2002.

Thanks to employees and shareholders

The management team would like to take the opportunity to thank all employees for their hard efforts during the past fiscal year, helping the M+M group to gain rather satisfactory results in a much more difficult than expected market environment.
As well, we would like to express our thanks to our shareholders for their loyalty during a very turbulent year on the stock markets.
M+M's management and employees will continue to make best efforts to deserve this confidence.

Wessling, March 2001

Mensch und Maschine Software AG
The Board of Management

Advisory Board report

During the year under review, the advisory board of the Mensch und Maschine Software AG, Wessling, fulfilled all its obligations as incumbent, pursuant to the corresponding statutes and by-laws, and including the ongoing supervision of the company management. Including the annual fiscal year report meeting, four joint board meetings took place over the course of the year. Additionally, outside the setting of the official meetings, management kept the board posted of company status with substantial oral and written reports.

Topics of discussion covered extensively during the official meetings between the board and the executive management included company and revenue development, strategic shareholdings, important investment projects, company planning as well as considerable other important administrative operations. The strategic positioning of the group was another subject of intensive discussion.

In cases where the consent of the board was required for specific management decisions, board members carefully weighed their decisions according to the draft resolutions submitted and subsequent assessment. The board was also informed in advance of all decisions having considerable economic relevance.

The board moreover remained up-to-date on the current risk status of the company and became convinced of the functionality of the risk management employed.

The annual report, the group financial statement, the Mensch und Maschine Software AG management report as well as the group management report including all accounting transactions covering the period of January 1 through December 31, 2000, was audited by Ernst & Young Deutsche Allgemeine Treuhand AG Wirtschaftspruefungsgesellschaft (auditing firm), Munich, as approved at the annual shareholders' meeting on May 22, 2000. All company documents were endorsed with an unqualified audit opinion.

The annual report, the status report and the auditor's report was sent to the board members on March 21, 2001. The board itself also reviewed the annual report, the profit distribution proposal, as well as the management report for Mensch und Maschine Software AG and announced its official approval of this and of the group financial statement and management report in the presence of the auditors during the annual report board meeting held on March 23, 2001.

All questions from the board were answered extensively. After discussion as well as review of the annual report and status report, the advisory board expresses its approval of the auditor's report, raising no objections. The annual report and management report of Mensch und Maschine Software AG was thus approved and adopted.

The dedication and commitment displayed by management and employees alike contributed fundamentally to the commercial success realized during the past fiscal year. The advisory board would like to take this opportunity to acknowledge its gratitude and appreciation for the exemplary performance demonstrated by all company employees.

Wessling, March 2001

The Advisory Board

Thomas H. Knorr
Chairman

Statement of income (IAS)

Amounts in KEUR	1999		2000					
Statement of Income	Group	00/99	Group		Germany		International	
1. Sales revenues	**103,290**	+12%	**115,843**	100%	**50,334**	100%	**65,508**	100%
a) Verticals new customers	27,022	+6%	28,741	24,8%	13,291	26,4%	15,450	23,6%
b) Verticals old customers	22,589	+33%	30,113	26,0%	16,262	32,3%	13,850	21,1%
c) Horizontals new customers	27,054	+11%	29,950	25,9%	8,642	17,2%	21,308	32,5%
d) Horizontals old customers	23,273	-1%	22,982	19,8%	8,658	17,2%	14,324	21,9%
e) Service revenues	3,351	+21%	4,057	3,5%	3,481	6,9%	576	0,9%
2. Cost of materials	**75,431**	+12%	**84,802**	73,2%	**36,011**	71,5%	**48,791**	74,5%
3. Gross margin	**27,859**	+11%	**31,041**	26,8%	**14,324**	28,5%	**16,717**	25,5%
4. Other operating income	**2,476**	+44%	**3,555**	3,1%	**3,082**	6,1%	**473**	0,7%
5. Personnel expenses	**10,898**	+5%	**11,456**	9,9%	**6,800**	13,5%	**4,656**	7,1%
6. Other operating expenses	**14,341**	+10%	**15,846**	13,7%	**7,998**	15,9%	**7,848**	12,0%
7. EBITDA	**5,096**	+43%	**7,294**	6,3%	**2,609**	5,2%	**4,685**	7,2%
8. Depreciation and amortization	**2,428**	+35%	**3,284**	2,8%	**1,935**	3,8%	**1,349**	2,1%
9. Earnings before interest and tax (EBIT)	**2,667**	+50%	**4,010**	3,5%	**673**	1,3%	**3,337**	5,1%
10. Financial result	**-457**		**-780**	-0,7%	**142**	0,3%	**-923**	-1,4%
11. Earnings before tax (EBT)	**2,210**	+46%	**3,230**	2,8%	**816**	1,6%	**2,414**	3,7%
12. Extraordinary expenses	**365**	-76%	**87**	0,1%	**87**	0,2%	**0**	0,0%
13. Income taxes	**528**	+197%	**1,569**	1,4%	**327**	0,6%	**1,242**	1,9%
a) thereof payed	401	+73%	693	0,6%	71	0,1%	622	1,0%
b) thereof deferred	126	+593%	875	0,8%	256	0,5%	619	0,9%
14. Other taxes	**290**	-65%	**101**	0,1%	**2**	0,0%	**99**	0,2%
15. Aftertax earnings	**1,028**	+43%	**1,473**	1,3%	**400**	0,8%	**1,073**	1,6%
Earnings adjustments (from 12.)	302		87		87		0	
16. Earnings adjusted	**1,330**	+17%	**1,560**	1,3%	**487**	1,0%	**1,073**	1,6%
Number of shares in million (fully diluted)	4.289	+1%	4.346					
Earnings per share (EUR)	**0,31**		**0,36**					

Balance sheet (IAS)

Amounts in KEUR	31.12.99		31.12.00	
ASSETS	**Group**	**00/99**	**Group**	
A. Non current assets	**16,608**	**+71%**	**28,383**	**35,1%**
I. Tangible assets	1,748	+6%	1,849	
II. Intangible assets	7,730	+95%	15,085	
III. Financial assets	5,149	+96%	10,113	
IV. Tax assets	1,981	-33%	1,336	
B. Current assets	**45,375**	**+15%**	**52,384**	**64,9%**
I. Inventories	13,494	+41%	19,053	
II. 1. Trade accounts receivable	22,901	+16%	26,607	
2. Other current assets	6,074	-48%	3,181	
3. Receivables from companies in which shares are held	87	+144%	213	
III. Cash on hand, balances with banks	2,818	+18%	3,329	
TOTAL ASSETS	**61,983**	**+30%**	**80,767**	**100%**
SHAREHOLDERS‘ EQUITY + LIABILITIES	**31.12.99**	**00/99**	**31.12.00**	
A. Shareholders’ equity	**23,910**	**+4%**	**24,911**	**30,8%**
I. Subscribed capital	5,414	+1%	5,449	
II. Capital reserve	17,796	+2%	18,220	
III. Other reserves	143		143	
IV. Profit or loss carry forward	-432	-12%	-378	
V. Earnings of the year	1,028	+43%	1,473	
VI. Currency conversion	-38		5	
B. Non current liabilities	**1,719**	**+9%**	**1,877**	**2,3%**
I. 1. Pension accruals	480	-33%	322	
2. Other non current accruals	114	+74%	199	
II. Deferred tax liabilities	1,125	+21%	1,357	
C. Current liabilities	**36,353**	**+48%**	**53,979**	**66,8%**
I. 1. Tax accruals	688	+54%	1,059	
2. Other current accruals	926	+5%	975	
II. 1. Liabilities to banks	14,349	+74%	24,917	
2. Liabilities from accounts payable	18,420	+26%	23,122	
3. Liabilities to companies in which shares are held	128	+1145%	1,591	
4. Other liabilities	1,842	+26%	2,315	
TOTAL EQUITY + LIABILITIES	**61,983**	**+30%**	**80,767**	**100%**

Statement of cash flows (IAS)

Amounts in KEUR	1999	2000
	Konzern	Konzern
1. Earnings of the year	**1,028**	**1,473**
+ Depreciation on non currents assets	2,428	3,284
+ In- / - Decrease of long term accruals	158	-74
2. Cash flow	**3,613**	**4,683**
+ In- / - Decrease of short term accruals	-145	419
+ Loss / - Profit from disposal of non current assets	67	0
- Capitalization of development costs	-1,798	-1,823
+ De- / - Increase in inventories, accounts receivable and other assets	-9,956	-5,853
- De- / + Increase of liabilities	2,756	6,870
3. Cash flows from operating activities	**-5,462**	**4,295**
+ Payments received on the disposal of non current assets	0	759
- Payments for investments in non current assets	-5,765	-14,639
4. Cash used in investing activities	**-5,765**	**-13,880**
+ Proceeds from capital increases	171	459
- Payments to shareholders	-752	-975
- Repayments made / + Received on loans and credits	13,437	10,568
5. Cash from financing activities	**12,856**	**10,053**
6. Changes affecting investment funds	**1,628**	**468**
Changes affecting investments funds due to currency conversion	-92	43
7. Cash and cash equivalents start of period	**1,281**	**2,818**
8. Cash and cash equivalents end of period	**2,818**	**3,329**

Notes

General remarks

Statement of compliance with IAS
The consolidated financial statement of Mensch und Maschine Software AG, Wessling (parent company) has been drawn up in compliance with International Accounting Standards according to the specifications as defined in the currently valid guidelines of the International Accounting Standards Committee (IASC). The financial statements of the domestic and international group companies have been audited by independent auditors and have all been endorsed with an unqualified audit opinion.

Valuation methods and accounting policies applied

Consolidated companies and closing date
In addition to the parent company, the consolidated financial statement comprises all directly and indirectly owned domestic and international subsidiaries, which are included in accordance with the principles of full consolidation.

The following individual companies were fully consolidated in the group financial statement of December 31, 2000:

100% owned M+M group companies
Mensch und Maschine Systemhaus GmbH, Wessling, Germany
Staufen Akademie Bad Boll Privates Schulungszentrum für Datenverarbeitung GmbH, Bad Boll, Germany
Mensch und Maschine Software AG, Zurich, Switzerland
Mensch und Maschine Software Ges.m.b.H., Salzburg, Austria
Man and Machine S.a.r.l., Bagnolet, France
Man and Machine Software s.r.l., Vimercate, Italy
Man and Machine Software Sp.ZO.O., Lodz, Poland
Force 2 International Ltd. Thame, United Kingdom
emt Design & Teknik AB Ekerö, Sweden
S&S AB Linköping, Sweden
Adner & Eriksson AB Linköping, Sweden

Closing accounting date for the subsidiaries included in the group consolidated financial statement is December 31. In the case of Force 2 International Ltd. which was acquired in July, first time consolidation was performed retroactive to July 1, 2000.
For the new Swedish acquisitions emt AB, S&S AB and Adner&Eriksson AB bought in September 2000, first time consolidation was performed as of October 1, 2000.

Principles of consolidation

Capital consolidation
Capital is consolidated pursuant to IAS 22 using the benchmark method, by offsetting the „fair values“ of the shares with the pro rata equity of the subsidiaries included in the group consolidated financial statement at the date of acquisition or as a first-time consolidation. The differences arising from the consolidation of capital, to the extent that they are assets, are indicated as goodwill under non-current assets. To the extent that they are liabilities, they are allocated to the consolidation compensating item under shareholders' equity.
Receivables, reserves, liabilities, accruals and deferrals resulting from intra-group transactions are mutually offset. Differences from the consolidation of debt are treated with effect on earnings. Contingent liabilities were consolidated to the required extent. Interim profits and losses resulting from intra-group supply and service trading were likewise eliminated as were investment returns from companies included in the consolidation.

Intra-group sales revenues as well as other intra-group earnings were offset by the appropriate expenditures which would apply, provided these were not to be converted into other capitalized own work or inventory movement.

With regard to the consolidation measures affecting results, tax deferrals pursuant to IAS 12 were carried out to the extent that the deviation in tax expenditure would conceivably be balanced in future fiscal years. Deferred taxes were not regarded in cases of semi-permanent differences (goodwill). The total amount of deferred taxes from the individual and consolidated financial statements is included in the item income taxes in the statement of income.

Currency conversion
The annual financial statements of the group's international subsidiaries were converted into German Deutschmarks in accordance with the principle of functional currency in compliance with IAS 21. This refers to the respective national currency for all companies since these international companies are financially, economically and organizationally independent with respect to their operations.

Accordingly, equity was converted at the historical exchange rate, the other balance sheet items were converted at the exchange rate on closing date, and income and expenditures as well as year-end results were converted using a mean exchange rate for the year. In compliance with IAS 21, differences arising from currency conversion of both capital consolidation and transfer of the annual earnings to the balance sheet at the mean annual exchange rate were treated as having no effect on earnings and are indicated separately by the currency conversion entry within equity.

Structure of statement of income and balance sheet
In keeping with the international practice of consolidated financial statements, the report begins with the statement of income (profit and loss), itemized according to the cost-summary method. In accordance with IAS 1, the balance sheet is apportioned into non-current and current assets (fixed/liquid assets) and into non-current and current liabilities.

Segment reporting

The consolidated financial statement comprises a segment report in accordance with IAS 14. The primary segment is geographic and distinguishes Germany from international operations. The numerical division to the primary segment is directly comprised in the Germany and international columns of the statement of income. Information concerning the allocation of assets and investments during the year under review are found in the notes to the accounts.

The secondary segment corresponds to a sectional division of customer and product groups and represents a division according to old and new customers as well as specific solutions (verticals) and non-specific (horizontal) base applications. While horizontal applications are purchased completely from the main supplier Autodesk, the vertical solutions are partly developed in-house, partly supplied by external developers with exclusive commitment to M+M, and partly from Autodesk. The fifth segment comprises revenues from services.

The division of revenue in the secondary segments can be taken directly from lines 1a through 1e in the statement of income. There is no information provided on the allocation of assets and investments in the secondary segments realized in the current year as this information was not available.

Accounting and valuation methods

Non current assets

Intangible and tangible assets are shown at cost of acquisition less scheduled depreciation. Goodwill is depreciated over a period of ten years. Low value items are written off in full in the year of purchase. Development costs arising during the fiscal year which will yield future revenue are capitalized in accordance with IAS 9 and are depreciated over a period of three years beginning with the following year.

Fiscal year 2000 depreciation amounts to KEUR 1,359 (1999: KEUR 979). In accordance with IAS 9, development costs for new products or processes are to be capitalized should there be sufficient evidence to indicate that developmental activities are likely to yield future capital influx beyond normal costs as well as cover the respective developmental costs. Additionally, with respect to development projects and the respective project or process to be developed, all the various criteria as set forth in IAS 9 must be satisfied. The prerequisites for capitalization are inherent in the M+M Group, since development costs occurred during the report year for new versions of the M+M vertical solutions which will yield additional revenue and earnings as of the following year.

All financial assets are capitalized at cost of acquisition.

Current assets
Inventories are indicated at cost of purchase. If necessary, a depreciation to the lower value was applied. All ascertainable risks were taken into account by means of reasonable appropriate reduction. For all other current assets, in addition to required value adjustments for specific ascertainable risks, the general credit risk is borne by a sufficient lumpsum reserve. Foreign currency amounts are shown at the historical exchange rate or, if lower, the exchange rate on statement closing date.

Accruals
Pension accruals are calculated using the projected valuation method according to IAS 19, indicating the cash value of their defined benefit liability and covering all entitlements subsequent to conclusion of the working relationship. There is a reinsurance coverage. According to IAS 26, pension accruals have to be settled with appropriate assets, leading to a net amount of pension accruals. As this settling was not performed in previous fiscal year, there is a reduction of pension accruals in fiscal year 2000.

The value defined for other accruals takes into account all ascertainable risks and contingent liabilities based on reasonable commercial judgement.

Liabilities
Liabilities are valued at their repayment value. Foreign currency liabilities are shown at their rate on statement closing date or, if higher, at their historical exchange rate.

Principles of revenue recognition
In the Mensch und Maschine Group, recognition of revenue occurs at that time when the risk passes to the customer.

Notes to the statement of income

1. Sales revenues
Revenue comprises KEUR 50,334 (1999: 49,948) for domestic sales and KEUR 65,508 (1999: 53,341) for international sales.

4. Other operating income
Other operating income in accordance with the IAS guidelines mainly includes capitalized development costs of KEUR 1,823 (1999: 1,798), profits from sales of strategic shareholdings amounting to KEUR 724 (1999: 0), returns from private use of cars and telephones in the amount of KEUR 319 (1999: 266) and rents received of KEUR 116 (1999: 130).

8. Depreciation and amortization
This item includes deprecations on tangible assets amounting to KEUR 873 (1999: 917), as well as deprecation on goodwill totalling KEUR 879 (1999: 379), on capitalized development costs of KEUR 1,359 (1999: 979) as well as on other intangible assets in the amount of KEUR 174 (1999: 152).

10. Financial result
The financial results include interest and similar income amounting to KEUR 429 (1999: 205) as well as interest and similar expenses of KEUR 1,210 (1999: 662).

12. Extraordinary expenses
These expenditures resulted from an extraordinary tax payment, mainly for non deductable VAT regarding expenses for M+M's going public in 1997 which was discovered during a tax audit.

13. Income taxes
This item encompasses tax payments of KEUR 693 (1999: 401). It also comprises deferred taxes amounting to KEUR 231 (1999: 416) as well as a load of KEUR 645 (1999: surplus 289) from further development and revaluation of tax assets in accordance with IAS 12 and referring to the changes in tax quotes after the tax reforms in Germany and France.

14. Other taxes
This position comprises taxes independent of income arising almost exclusively as due in the French and Italian subsidiaries.

Development of stock option rights

Year of issue		1997	1998	1999	2000
Strike price	EUR	11.50	33.89	29.99	24.94
Total number granted		70,400	116,200	90,900	88,300
as of Dec 31, 2000	exercised	43,450	600	-------	-------
	expired	6,800	15,400	4,800	3,500
	exercisable	20,150	62,400	-------	-------
not yet exercisable total		-------	37,800	86,100	84,800
exercisable as of	2001	-------	27,800	38,050	-------
	2002	-------	-------	10,000	42,400
	2003	-------	10,000	38,050	-------
	2004	-------	-------	-------	42,400

Earnings per share,
number of shares as per Dec 31, 2000
The adjusted earnings per share (diluted) amounted to EUR 0.36 (1999: 0.31). This dilution includes not only the original subscribed capital shares, but also all option rights from the employee option program which were exercisable at the statement closing date, but which had not yet been exercised (see table above).
The total number of diluted shares on December 31, 2000 thus amounted to 4,345,642 (4,263,092 shares from subscribed capital plus 82,550 exercisable options).

Transition from IAS to HGB
Earnings according to International Accounting Standards (IAS) differ from earnings according to German Accounting Standard HGB in three areas:
Deferred taxes and tax assets (IAS 12), Capitalization of development costs (IAS 9) and amount of pension accruals (IAS 19).
The transition from IAS to HGB for fiscal year 2000 can be seen from the following table (all amounts in KEUR):

Earnings according to IAS	**1,473**
Corrections:	
Deferred taxes and tax assets	+816
Capitalization of development costs	-1,823
Depreciation of development costs	+1,359
Pension accruals	+56
Earnings according to HGB	**1,881**
DVFA adjustments	+87
Adjusted earnings according to HGB/DVFA	**1,968**

Shedule of movement of non current assets (IAS)

Group	Acquisition costs				Accumulated depreciation				Net book value	
	01.01.00	Addition	Disposal	31.12.00	01.01.00	Addition	Disposal	31.12.00	31.12.00	31.12.99
I. Tangible assets	**4,506**	**1,272**	**701**	**5,077**	**2,758**	**873**	**402**	**3,228**	**1,849**	**1,748**
II. Intangible assets	**10,745**	**9,768**	**84**	**20,429**	**3,016**	**2,411**	**82**	**5,345**	**15,085**	**7,730**
1. Goodwill	4,838	7,622	0	12,460	645	879	0	1,524	10,937	4,194
2. Development costs	4,735	1,823	0	6,558	1,704	1,359	0	3,062	3,496	3,031
3. Other	1,172	323	84	1,411	667	174	82	759	652	505
III. Financial assets	**5,149**	**5,423**	**459**	**10,113**	**0**	**0**	**0**	**0**	**10,113**	**5,149**
IV. Tax asset	**1,981**	**0**	**645**	**1,336**	**0**	**0**	**0**	**0**	**1,336**	**1,981**
(all amounts in KEUR)	**22,381**	**16,463**	**1,888**	**36,956**	**5,774**	**3,284**	**485**	**8,573**	**28,383**	**16,608**

Notes to the balance sheet

Assets

A. Non current assets

The development of the non-current assets during fiscal year 2000 is indicated in the schedule of fixed assets movement.

Depreciation was calculated as has been done previously on a straight line basis in accordance with the determined useful life.

A.I. Tangible assets

Tangible assets total KEUR 1,849 (1999: 1,748). Thereof, an amount of KEUR 580 is allocated to Germany and an amount of KEUR 1,269 is allocated to international operations.

A.II. Intangible assets

The additions to the intangible assets contain the goodwill arising from the first-time consolidation of Force 2 International Ltd, Thame, emt AB, Ekerö, as well as Adner&Eriksson AB and S&S AB, Linköping, in total amounting to KEUR 7,622 (1999: 1,763) as well as development costs of KEUR 1,823 (1999: 1,798). Intangible assets total KEUR 15,085 (1999: 7,730). Thereof, an amount of KEUR 4,543 is allocated to Germany and an amount of KEUR 10,542 is allocated to international operations.

A.III. Financial assets

The financial assets amounting to KEUR 10,113 (1999: 5,149) mainly comprise the costs associated with the acquisition of strategic minority interests. All minority interests are valued at acquisition costs since the prerequisite for equity consolidation is not applicable due particularly to the lack of considerable influence in the operative business of the respective company.

The following investments existed on Dec 31, 2000:

Investments on Dec 31, 2000	
RCT Research Consulting Technology GmbH, Haar	54.8%
Elektro-CAE-Software GmbH (ECS), Donzdorf	20.0%
DATAflor AG, Göttingen	31.0%
SOFiSTiK AG, Munich	10.0%
AIM GmbH, Dachau	25.0%
YELLO! AG, Wiesbaden	19.0%
CYCO BV, Netherlands	5.0%
CTB GmbH & Co KG, Buchholz	10.0%
CCS GmbH, Stuttgart	40.0%
C-Plan AG, Switzerland	20.0%

Concerning financial assets, an amount of KEUR 7,818 is allocated to Germany and an amount of KEUR 2,296 is allocated to international operations.

A.IV. Tax asset

This item comprises the tax assets, hence the statement of potential tax savings based on the cited international subsidiaries' offset tax loss carry forwards.

B.I. Inventory

Inventory is apportioned into unfinished products totalling KEUR 231 (1999: 300) and finished products and goods amounting to KEUR 18,823 (1999: 13,194).

B.II.1. Trade accounts receivable

Trade accounts receivable comprised in the group's individual companies include reasonable specific and lump-sum adjustments and generally have a remaining term of less than one year.

B.II.2. Other current assets

Other receivable primarily comprise tax credits, loans and creditor receivable from pending reimbursements.

Liabilities

A.I. Subscribed capital

The subscribed capital of Mensch und Maschine Software AG totals KEUR 5,449 (1999: 5,414) and comprised 4,263,092 no-par shares (Stückaktien) on Dec 31, 2000.

A.II. Capital reserve

The capital reserve item primarily comprises the premiums from the 1996 to 1998 capital increases as well as premiums from options exercised.

A.VI. Currency conversion differences

Differences in rates of currency exchange in capital consolidation as well as in the transfer of the annual earnings to the group balance sheet were assessed with an average annual exchange rate and treated as to have no effect on earnings.

B.I.1. Pension accruals

Pension liabilities solely concern the parent company. Said liabilities are calculated in accordance with actuarial principles corresponding to the projected valuation method of IAS 19. An increase of KEUR 69 was recorded with respect to the previous year. According to IAS 26, the existing assets from reinsurance coverage amounting to KEUR 227 were for the first time subtracted from the pension accruals, thus resulting in a total reduction of pension accruals by KEUR 158 compared to previous fiscal year.

B.I.2. / C.I.2. Other accruals

The valuation of other accruals was made under consideration of all ascertainable risks and contingent liabilities. It essentially comprises short-term accruals for pending vacation times as well as for any impending customer receivable losses. Long-term reserves comprise primarily indemnities for cases of retirement as legally stipulated to some extent in some countries.

B.II. Deferred tax liabilities

Resulting from the continued capitalization of development costs, deferred tax liabilities increased to KEUR 1,357 (1999: 1,125).

Other financial obligations

Other financial obligations resulting from rental and leasing contracts for the group as a whole total KEUR 7,842 through the end of the year 2005. Material leasing contracts mainly apply to the mother company regarding the headquarters' building, SAP software and the company cars.

Notes to the statement of cash flows

The cash flow statement indicates the changes in the group cash flow due to influx and outflow of funds during the course of the year under review. This analysis of cash flow is divided into operating, investment and financing activities (IAS 7).

Cash flows from operating activities

The financial accounting begins with operative earnings. The cash flow totaling KEUR 4,683 (1999: 3,613 / +30%) indicates the surplus operational receipts prior to any form of earmarking the funds. In comparing with previous fiscal year there must be noted that pension accruals for the first time were settled with assets from reinsurance coverage resulting in a decrease of KEUR 227 compared to previous year without this settlement. On a comparable base, cash flow increased by 36% over previous year.

The outflow in current operational activities takes the changes in current funds into account.

Cash used in investing activities

The acquisition of tangible and intangible assets resulted in expenditures totaling KEUR 13,880 (1999: 5,765).
Thereof, KEUR 2,548 was allocated to Germany and KEUR 11,332 to international operations.

Cash from financing activities
Changes in liabilities to credit institutions led to an influx amounting to KEUR 10,053 (1999: 13,437).

Supplementary information on events occuring after the statement closing date
During first quarter 2001, 100% of former Swiss competitor CAD Distribution AG was acquired by share exchange, and the shareholding in CCS GmbH, Stuttgart, was increased from 40% to 60%.

Other supplementary information

Employees
The group's average number of employees during the fiscal year was 228 (1999: 214). 124 people were employed in Germany and 104 in international operations. A total of 240 persons were employed by the group on December 31, 2000: 118 in Germany and 122 in international operations.

Management board
The management board of Mensch und Maschine Software AG, Wessling, was comprised of the following gentlemen:
Adi Drotleff, Schondorf (CEO)
Peter Baldauf, Munich (Sales)
Michael Endres, Fürstenfeldbruck (Marketing)
Peter Schützenberger, Hagenheim (CFO)
Werner Siegel, Wessling (Technology)
until Sept 30, 2000
Jens Jansen, Munich (Technology)
from Oct 1, 2000

Advisory board
The advisory board of Mensch und Maschine Software AG, Wessling, was comprised of the following gentlemen:

Dietrich Walther, Iserlohn,
Chairman until May 22, 2000
Thomas H. Knorr, Bad Wiessee,
Chairman from May 22, 2000
Friedrich Soldner, München,
Vice-Chairman
Theodor Beisch, Aachen

Remuneration of board members
Remuneration for the management board amounted to KEUR 632 (1999: 569). The management board was granted share options during the period covered by the present report to a total value of KEUR 55 (1999: 71). The Black Scholes model was applied in assessing the fair value of the options. Remuneration for the advisory board totaled KEUR 20 (1999: 20).

Shares owned by board members
On Dec 31, 2000, the members of the management owned 2,410,500 shares (Dec 31, 1999: 2,418,200) and 21,000 options (Dec 31, 1999: 14,800) in Mensch und Maschine Software AG.
Stock ownership of the members of the advisory board as of Dec 31, 2000, was 1,000 shares (Dec 31, 1999: 3,400), option ownership of the members of the advisory board was 10,400 (Dec 31, 1999: 10,400).

Stock and option ownership of individual members of the boards as per Dec 31, 2000 can be seen from the following table:

Stock/option ownership Dec 31, 2000

	Shares	Options
Adi Drotleff	2,400,000	3,200
Peter Baldauf	0	6,200
Michael Endres	3,300	5,600
Peter Schützenberger	6,200	5,000
Jens Jansen	0	1,000
Thomas H. Knorr	0	2,400
Friedrich Soldner	1,000	3,200
Theodor Beisch	0	4,800

Other advisory board memberships of M+M board members
On December 31, 2000, Mr. Knorr also served as member of advisory board of IT-Adventure für Beteiligungen AG, Munich, and as President of Verwaltungsrat of Knorr Capital Partner (Switzerland) AG, Zurich.

On December 31, 2000, Mr. Drotleff also served as chairman of the advisory board of DATAflor AG, Göttingen, and further was a member of the advisory boards for JUMPtec AG, Deggendorf, and SOFiSTiK AG, Munich.

On December 31, 2000, Mr. Baldauf was also a member of the advisory board of YELLO! AG, Wiesbaden and of Verwaltungsrat of C-Plan AG, Gümlingen, Switzerland.

The remaining board members had no seats on any other advisory boards.

Development of Shareholders' equity 1999 / 2000

Amounts in KEUR	Subscribed Capital	Capital Reserve	Other Reserves	Profit-/ Loss	Currency exchange difference	Total Equity
As of Jan 1, 1999	**5,372**	**17,590**	**68**	**394**	**54**	**23,478**
Dividend for 1998				-752		
Exercising of options	19	151				
Staufen-Akademie contribution	23	54				
Allocation of reserves			75	-75		
Annual earnings 1999				1,028		
Change in currency conversion					-92	
As of Dec 31, 1999	**5,414**	**17,796**	**143**	**596**	**-38**	**23,910**
Dividend for 1999				-974		
Exercising of options	8	56				
S&S AB contribution	27	368				
Annual earnings 2000				1,473		
Change in currency conversion					43	
As of Dec 31, 2000	**5,449**	**18,219**	**143**	**1,095**	**5**	**24,911**

Auditors’ report

“We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity/partners' capital and cash flows as well as the notes to the financial statements, prepared by the Company Mensch und Maschine Software AG, Wessling, Germany for the business year from January 1 to December 31, 2000. The preparation and the content of the consolidated financial statements are the responsibility of the Company's executive board. Our responsibility is to express an opinion whether the consolidated statements are in accordance with International Accounting Standards (IAS) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in accordance with the International Standards on Auditing (ISA): Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures.

The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that our audit provides reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with IAS.
Our audit, which also extends to the group management report/prepared by the executive board for the business year from January 1 to December 31, 2000, has not led to any reservations. In our opinion, on the whole the group management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of the Group’s position and suitably presents the risks of future 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, 2000 satisfy the conditions required for the Company’s exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.

We conducted our audit of the required consistency of the group accounting with the 7th EU Directive for the exemption from the requirement for consolidated accounting pursuant German commercial law on the basis of the interpretation of the Directive by the European Commission’s Contact Committee on Accounting Directives.“

Munich, March 16, 2001

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftsprüfungsgesellschaft

Stangner
German Public Auditor

Zapf
German Public Auditor

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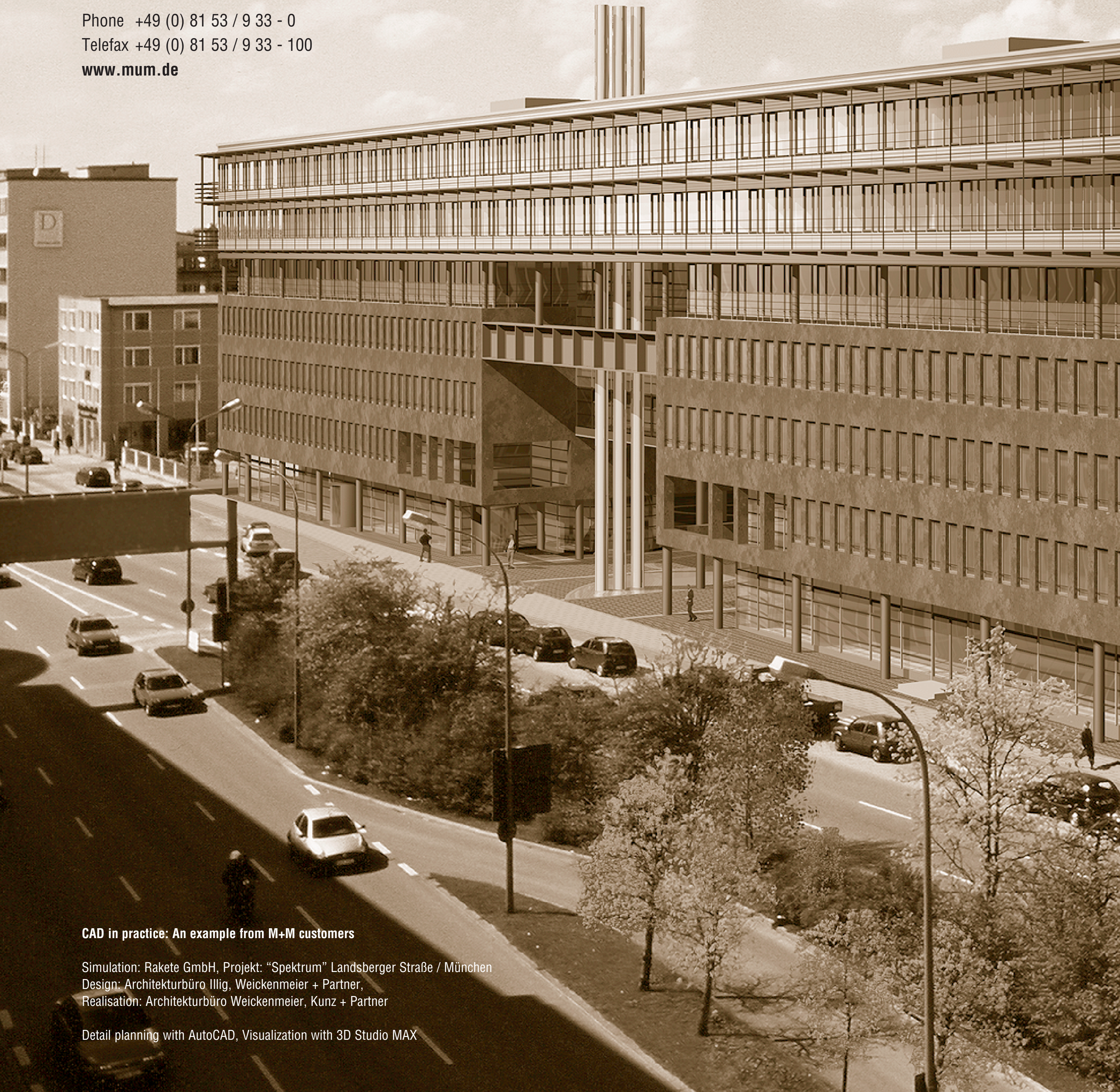

CAD in practice: An example from M+M customers

Simulation: Rakete GmbH, Projekt: “Spektrum” Landsberger Straße / München
Design: Architekturbüro Illig, Weickenmeier + Partner,
Realisation: Architekturbüro Weickenmeier, Kunz + Partner

Detail planning with AutoCAD, Visualization with 3D Studio MAX