mensch und maschine

CAD as CAD can

Annual Report 2002

Mensch und Maschine at a glance

All amounts in million EUR (unless stated otherwise)	1997		1998		1999		2000		2001		2002	
Revenue	**50.7**		**84.5**	+67%	**103.3**	+22%	**115.8**	+12%	**146.8**	+27%	**143,1**	-3%
Germany	**38.0**	75%	**48.6**	58%	**50.0**	48%	**50.3**	43%	**56.6**	39%	**55.1**	38%
International	**12.7**	25%	**35.9**	42%	**53.3**	52%	**65.5**	57%	**90.2**	61%	**88.1**	62%
Gross Margin	**15.8**		**20.3**	+28%	**27.9**	+37%	**31.0**	+11%	**40.0**	+29%	**47.2**	+18%
Trading products							**25.2**	81%	**31.6**	79%	**25.1**	53%
M+M Technology + Services							**5.8**	19%	**8.5**	21%	**22.1**	47%
Operating result EBITDA	**4.0**		**4.2**	+5%	**5.1**	+21%	**7.3**	+43%	**10.6**	+46%	**0.5**	-95%
EBITDA return from revenue	7.9%		5.0%		4.9%		6.3%		7.2%		0.4%	
Operating result EBIT	**3.1**		**2.6**	-15%	**2.7**	+2%	**4.0**	+50%	**6.2**	+59%	**-2.7**	
EBIT return from revenue	6.1%		3.1%		2.6%		3.5%		4.2%		-1.9%	
Net result	**1.3**		**1.8**	+31%	**1.3**	-24%	**1.6**	+17%	**2.3**	+50%	**-14.3***	
Net return from revenue	2.6%		2.1%		1.3%		1.3%		1.6%		-10.0%	
per share in EUR	**0.35**		**0.42**		**0.31**		**0.37**		**0.53**		**-2.84**	
Dividend in EUR	**0.13**		**0.18**	+40%	**0.23**	+29%	**0.28**	+22%	**0.35**	+25%	**0.00**	
Total assets	**23.3**		**45.3**	+94%	**62.0**	+37%	**80.8**	+30%	**89.2**	+10%	**83.2**	-7%
Shareholders' equity	**9.9**		**23.5**	+138%	**23.9**	+2%	**24.9**	+4%	**27.8**	+11%	**17.8**	-36%
Capital ratio	42.3%		51.8%		38.6%		30.8%		31.1%		21.3%	
Number of employees	**96**		**141**	+47%	**214**	+52%	**228**	+7%	**298**	+31%	**467**	+57%
thereof M+M AG	**75**	78%	**87**	62%	**95**	44%	**98**	43%	**88**	29%	**89**	19%
International subsidiaries	**21**	22%	**54**	38%	**97**	45%	**104**	46%	**136**	46%	**141**	30%
Technology subsidiaries	**0**	0%	**0**	0%	**22**	10%	**26**	11%	**74**	25%	**237**	51%

* Net result 2002 contains non-recurring charges amounting to EUR -14.6 Mio

Dear reader,
With a 3% fall in revenue to EUR 143.1 mln, M+M did comparatively well in an unfriendly market and economic environment during fiscal year 2002 and thus was able to further strengthen its market position as one of the leading CAD vendors in Europe.

Resulting from the Technology Offensive started in autumn 2001, gross margin was increased by 18% to EUR 47.2 mln.
Along with this, the M+M technology and services share jumped from 21% in the previous year to 47 percent.

Thus the objective set at the beginning of the year to balance the business model equally on two pillars, distribution and M+M technology, was achieved.
This represents a solid base for the newly implemented Three-Pillar-Strategy with PTC as an additional supplier of basic software technology.

Consequently, we see a good opportunity for 2003 to exceed the level of EUR 150 mln for revenue and 50 mln for gross margin.
To make this easier we have slimmed down expenses as well as balance sheet structure.

The use of synergistic effects along with a cost cutting programme initiated during third quarter helped the headcount to reduce significantly and flattened the cost push from the Technology Offensive in the second half of the year.

The balance sheet was cleaned up by impairments of goodwill and investments as well as by cancelling the capitalization of development costs (required by IAS but extremely controversial in the financial community) from the assets.

This caused non-recurring charges to the amount of EUR 14.6 Mio on one hand, pushing the 2002 net result into the red accordingly while both operative result and cashflow were positive.
On the other hand this cleaning up brings M+M into a much better position for the future: Development costs which have not been capitalized e.g. can cause no future depreciation and such are hidden reserves.

Therefore we are optimistic to achieve our earnings target of one Euro per share for fiscal year 2004 in spite of the difficult market conditions.

Wessling, March 31, 2003
The Board of Management

M+M - The Highlights 2002

- Revenue -3% to EUR 143.1 mln
  - International sales share was 62%
- Gross margin +18% to EUR 47.2 mln
  - Technology Offensive was successful: M+M Technology share 47% (PY 21%)
- Net result EUR -14.3 mln
  - Non recurring charges: EUR -14.6 mln
  - Slightly positive adjusted result
- Three-Pillar-Strategy: Product portfolio extended by PTC Wildfire March 1, 2003
- Market leadership further expanded: M+M's installation base is now well above 350,000 CAD seats
- Consequent balance sheet clean up:
  - Development cost capitalization cancelled
  - Impairments of goodwill and investments
  - Inventories significantly reduced
  - Total assets decreased by 7% in spite of Technology Offensive
- Synergy effects + cost cutting programme lower headcount at April 1, 2003 to 427 persons (average 2002: 467)

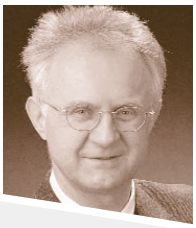
Adi Drotleff
CEO

Peter Baldauf
XVP Sales

Michael Endres
XVP Marketing

Jens Jansen
CIO

Peter Schützenberger
CFO



Werner Schwenkert
CTO

Management report

Enterprise and market position

Mensch und Maschine Software AG (M+M) is one of the leading European providers of CAD (Computer Aided Design) solutions.

Well balanced business model

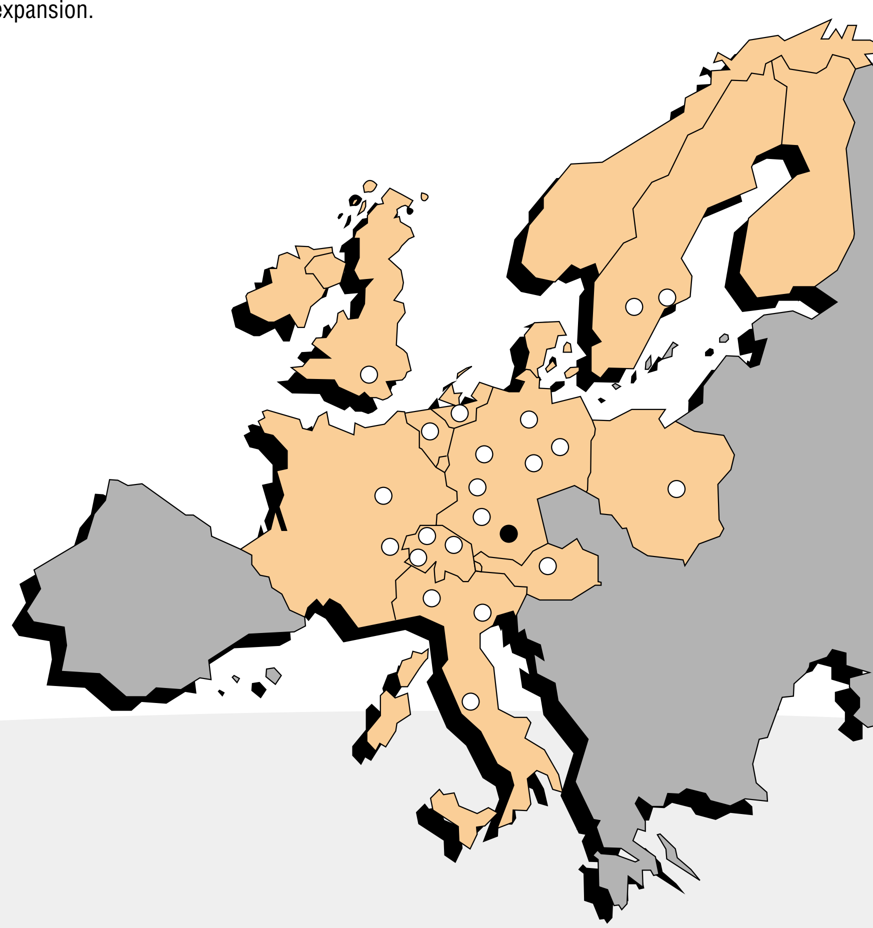
The M+M business model has a very broad base within the CAD market and is equally balanced in three respects:

1. Geographical markets
2. Customers and industry sectors
3. Product portfolio

The distribution over various geographical markets was mainly achieved in the years after the 1997 M+M IPO by a dynamic international expansion.

The good customer and industry sector balance however originated right from the early business model, following M+M's foundation in 1984.

The product portfolio, which until 1999 had been rather unilaterally focussed on Value-Added Distribution (VAD) of standard CAD software from US vendor Autodesk, was evened out during the last fiscal year mainly by a strong growth push in the business unit “M+M Technologies and Services”.



1. Geographical markets

While in 1997 domestic German business was clearly dominant with international sales of only EUR 12.7 mln or 25% of group revenue amounting to EUR 50.7 mln, the following five years saw nearly a seven-fold growth of international business which in fiscal year 2002 contributed EUR 88.1 mln or 62% of EUR 143.1 mln total group sales.

This development was driven by acquisitions in France, Italy, Poland (all 1998), England, Sweden (2000) and Switzerland (2001) as well as by the foundation of a new subsidiary in Belgium (2002) which today gives M+M market access to 15 European countries.

Comparing gross margin instead of sales, the split between German and international business in fiscal year 2002 was nearly even: Contribution from domestic business was 51% or EUR 24.1 mln, contribution by international markets was 49% or EUR 23.2 mln.

2. Customers and industry sectors

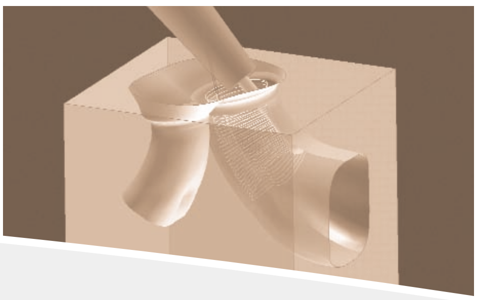
In this respect, the M+M business is split about half into mechanical engineering and half into the sectors of architecture and the construction industry with building services and visualization (approx. 25%), GIS - Geographic Informations Systems / gardening and landscaping (approx. 15%) and electrical engineering (approx. 10%).
This distribution is quite similar to the global CAD market, where about 50% of the total market volume is allocated to mechanical.

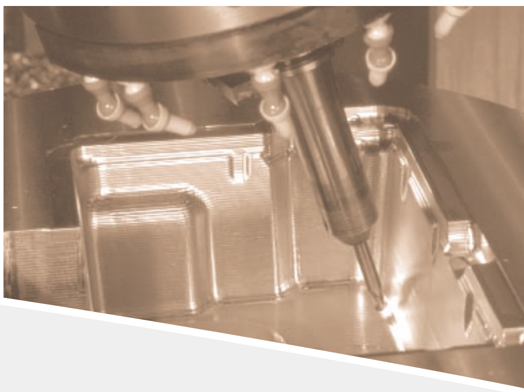
Customer- and orderwise the distribution of business is even wider: M+M is selling software solutions for about 50,000 CAD seats per year, 95% being sold through a network of approximately 1,000 authorized resellers, none of whom is achieving more than 3% of M+M group sales. Consequently there are no deep dependencies on the customer side from single purchasers.

Together with the reseller network, Mensch und Maschine has built up an installed base of over 350,000 CAD seats at about 50,000 end customer sites of all size categories - from small engineer's or architect's offices up to international large-scale enterprises.

The M+M group's business divides into four industry segments: One half of the sales is achieved with mechanical engineering and PLM (Product Lifecycle Management) solutions. The other half consists of architecture / construction industry (approx. 25%) including building services and visualization, Geographic Information Systems (GIS) / gardening and landscaping (approx. 15%) and the electrical engineering segment contributing approx. 10% of sales.

Application example mechanical: On the left side a computer simulation for 5-axis-milling of form channels. The right picture shows a modern 5-axis machine tool milling a wrought iron forge.



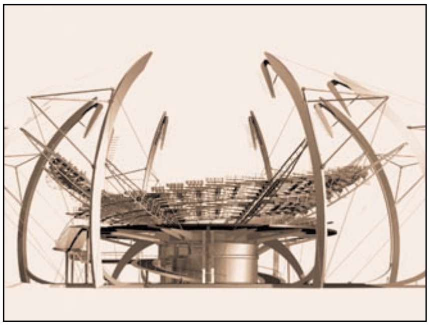


3. Product portfolio

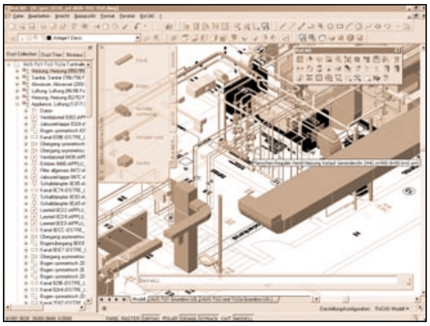
The M+M product portfolio covers a wide price/performance range from simple drawing software costing a few hundred Euro through midprice 2D/3D design solutions in the four-digit Euro range up to high end systems for 3D construction and manufacturing with software investment costs from 10,000 to 50,000 Euro and more per seat.

Until 1999, only about 10% of the group gross margin was achieved with M+M Technologies and Services, while the business unit VAD was clearly dominant and marked a relatively strong dependence upon main supplier Autodesk. The dependence, however, was never one-sided, because the M+M group carries more than 10% of Autodesk's worldwide sales, in Europe the share is even more significant at around one third.

The M+M Technology gross margin share, which had risen to EUR 8.5 mln or 21% up to 2001 has nearly tripled in the course of fiscal year 2002 and amounted to EUR 22.1 mln or 47% of group gross margin. Thus the M+M business model is now balanced across the product portfolio between owned and trading products.



Application examples: Architecture / Visualization ...



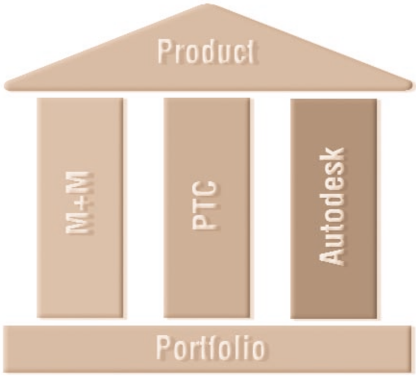
... Building Services (control unit of a sport center) ...

... and Geography (Geographic Information System for the city of Nuremberg)

This was possible through the Technology Offensive started in autumn 2001, in the course of which several software developers, fitting to the M+M core business, had been acquired. In most of these companies, M+M already had strategic minority shareholdings.

Development towards Three-Pillar-Strategy
Due to the Technology Offensive, a nearly equal balance across the product portfolio on two pillars was reached in only one year.

Based on this, the M+M business model will be further extended on the product side with the new Three-Pillar-Strategy:
To achieve this, a contract was completed with Parametric Technologies Corporation (PTC) in November 2002. This company, which like Autodesk (ticker symbol ADSK) is listed on Nasdaq (ticker symbol PMTC), is one of the worldwide market leaders for Mechanical CAD software with an annual revenue of USD 742 mln (Sept 30, 2002). PTC has just released the new product line Pro/ENGINEER Wildfire™, for which M+M took over the Value-Added Distribution in 14 European countries from March 1, 2003.



Three-Pillar-Strategy for product portfolio: In 2002 the business could be balanced between M+M Technology & Services and Value-Added Distribution of Autodesk software, following the Technology Offensive. The addition of PTC software has added a third pillar to the product portfolio from 2003 onwards.

Continuing high focus on Autodesk products
This expansion of the business model in no way means that M+M is turning away from its existing primary supplier Autodesk, whose products will continue to play a key role in M+M's portfolio.

Autodesk will remain an important partner of M+M, particularly in the areas of architecture/construction, geography, and electrical as well as mechanical engineering. The addition of a second supplier therefore was extensively discussed with the Autodesk management upfront. It also falls in line with Autodesk's actual strategic direction towards more direct sales.

Reaction on customer demands
By opening a second product line in the mechanical sector, M+M also has reacted to more and more incoming requests from end users as well as from resellers for a more independent product portfolio.

Affordable CAD: The series of symbols and parts libraries developed by M+M priced at just 25 Euro per package allows the customer together with Autodesk's drawing programme AutoSketch to step into CAD for just a few hundred Euro.

The Mensch und Maschine group structure
The M+M group at Dec 31, 2002 consisted of 26 individual companies in Europe, Asia and USA described as follows:

Group mother company
Mensch und Maschine Software AG
Location: Wessling near Munich
Subsidiaries in Wiesbaden, Dusseldorf, Hamburg and Berlin
Headcount at Dec 31, 2002: 90
Mensch und Maschine Software AG has a combined strategic and operational position: The headquarters hosts the Holding Group function and is the seat of Group management, the German VAD business unit plus software development for the building services product line RoCAD and "CAD affordable" (symbols and parts libraries and low price applications). Central Group functions are also carried out here: Finance, Information Technology, Order Processing and Logistics (partly) as well as some Marketing and Product Management functions for the VAD business unit.

European Subsidiaries
Outside Germany the VAD business unit is operated by subsidiaries acting independently in terms of sales and organization who also benefit from interaction with each other and support from the group mother company. E.g. the German speaking area forms an organizational unit in terms of Product Management, Finance, Order Processing and (partly) Logistics. Similarly, the subsidiaries in France, Belgium and Switzerland complement each other in the french speaking area. These regional synergies are also helping the Technology subsidiaries through support in terms of sales and/or administration.

Austria: Mensch and Maschine Software GmbH
Location: Salzburg
Headcount at Dec 31, 2002: 4
Group member since 1994 (Acquisition)

Switzerland:
Mensch and Maschine Software AG
Location: Riehen near Basel
Subsidiaries in Wallisellen near Zurich and La Conversion near Lausanne
Headcount at Dec 31, 2002: 10
Group member since 1995 (Foundation), Q1/2001 extended by acquisition

France: Man and Machine S.a.r.l.
Location: Bagnolet near Paris
Headcount at Dec 31, 2002: 31
Group member since 1995 (Foundation), 1998 extended by acquisition

Italy: Man and Machine Software s.r.l.
Location: Vimercate near Milan
Subsidiaries in Vigonza near Padua and Rome
Headcount at Dec 31, 2002: 25
Group member since 1998 (Acquisition)

Poland:
Man and Machine Software Sp.ZO.O.
Location: Lodz
Headcount at Dec 31, 2002: 14
Group member since 1998 (Acquisition)

UK / Ireland:
Man and Machine UK Ltd.
Location: Thame/Oxfordshire
Headcount at Dec 31, 2002: 21
Group member since Q3/00 (Acquisition)

Scandinavia: Man and Machine AB
Location: Sundbyberg near Stockholm
Subsidiary in Linköping
Headcount at Dec 31, 2002: 25
Group member since Q4/00 (Acquisition)

Benelux: Man and Machine Benelux NV
Location: Ternat near Brussels
Subsidiary in Zwolle / Netherlands
Headcount at Dec 31, 2002: 8
Group member since Q1/02 (Foundation)

Technology and Service Subsidiaries:
Equally, the Technology and Service subsidiaries are organizationally independent. However, more and more synergy with the group holding is used, so far in Finance, Order Processing, IT-Backoffice and Marketing. In addition, progress has been made in merging locations: In the Dusseldorf area M+M AG, OPEN MIND, EUKLID and M+M-Akademie joined in one location, in the Singapore area this was done between OPEN MIND and EUKLID. Additionally, OPEN MIND in England is using the infrastructure of M+M in Thame.

Mensch und Maschine Akademie GmbH
Location: Bad Boll near Stuttgart
Subsidiaries in Dusseldorf and Munich
Headcount at Dec 31, 2002: 28
Group member since 1999 (majority takeover), since 1998 minority shareholding

M+M Akademie (formerly Staufen Akademie) is the only pure service subsidiary in the group concentrating on the areas of training (approx. 2,500 participants per year) and customer-specific software applications. In a way, it is the Training and Tuning department of the M+M group.

EUKLID Software GmbH
Location: Wessling near Munich
Subsidiaries in Dusseldorf, Berlin and Kirchheim/Teck
Headcount at Dec 31, 2002: 22
Group member since Q2/2001 (majority takeover), since 2000 minority shareholding

OPEN MIND Technologies AG
Location: Unterfoehring near Munich
Subsidiaries in Kirchheim/Teck, Pleidelsheim, Wessling, Dusseldorf, France, Italy, England, USA, Singapore and Japan.
Headcount at Dec 31, 2002: 83
Group member since Q1/02 (Acquisition)

OPEN MIND and EUKLID both develop CAM software solutions. CAM stands for Computer Aided Manufacturing, e.g. the automatic milling of moulds for casting and forging in the Automotive and Aerospace industry as well as in many other areas of Mechanical Engineering. In the highly complex 5-axis milling process the hyperMILL product line from OPEN MIND has a technologically leading position and allows the customers quick amortization of their high machine tool investments. These CAM solutions are not only sold in Europe, but also in the USA as well as Asia/Pacific and Japan through OPEN MIND subsidiaries.

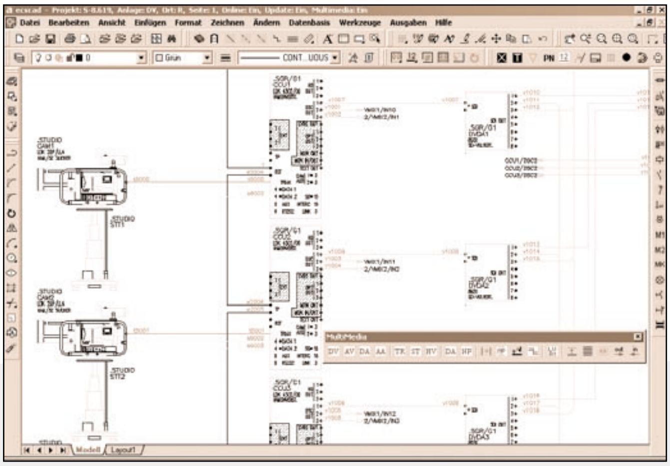
With sales of more than EUR 12 mln from OPEN MIND and EUKLID, the M+M group has moved to the first tier of vendors in the attractive niche market of CAM solutions.

The synergy effects between these two companies are very distinct due to their complementary fit in the product portfolio and sales activities. This has allowed significant reduction in EUKLID headcount, because there was much redundancy e.g. in the management, the sales organization and the costly development of the technology kernel.

Elektro-CAE Software GmbH (ECS)
Location: Donzdorf near Stuttgart
Headcount at Dec 31, 2002: 10
Group member since Q1/02 (majority take-over), since 1998 minority shareholding

ECS is the developer of ecscad, the leading Electrical Engineering Application in the Autodesk world, being exclusively marketed by the M+M group for 10 years.
The emphasis in electrical engineering solutions is not in the graphical but in the data base area. Ecscad has its special strength here: Large electrical engineering projects, e.g. at railroad companies, contain up to thousand or more diagrams which are cross-linked by very extensive cross references with each other. These cross references are managed automatically by ecscad in a special database. As a result, the potential for rationalization for such customers is particularly high.
ECS is selling its solutions not only in Europe but also in the USA and in Asia.

Application example Electrical Engineering: Video/audio plan using ecscad



DATAflor Software AG
Location: Goettingen
Subsidiaries in Berlin, Dresden, Voerde, Karlsruhe and Wittibreut
Headcount at Dec 31, 2002: 52
Group member since Q1/02 (majority takeover), since 1999 minority shareholding

DATAflor has a strong position in the German-speaking gardening and landscaping market for garden and landscape architects as well as garden centers.
The proffered solutions not only contain a graphic planning part but also the complete financial calculation and billing for such projects.
DATAflor was founded back in 1983 and maintains evolved customer relationships which are carefully nurtured.

AIM Systems GmbH
Location: Karlsfeld near Munich
Subsidiaries in Elzach/Black forest
Headcount at Dec 31, 2002: 18
Group member since Q2/02 (majority takeover), since 1999 minority shareholding

With the COMPASS product line, AIM holds a leading position for PLM solutions in the Autodesk market environment.
PLM means Product Lifecycle Management, i.e. the database-management of product-related data throughout the whole design process and product lifecycle.

COMPASS users mainly come from the mechanical engineering sector and appreciate the particular suitability of the system in heterogeneous CAD environments as well as the ease of use in small to medium-size workgroups, keeping project costs reviewable and allowing fast project development.

RCT was the only Technology subsidiary with negative development
Only one company taken over in the course of the Technology Offensive did not perform positively in 2002: RCT Research GmbH, Haar near Munich, a developer of automization solutions for the shoe industry. M+M had taken over control as of Dec 31, 2001, targeting the achievement of break even for 2002. Due to the investment restraint in the shoe industry which became increasingly evident during the second half of the year, this target was clearly missed. The continuing difficult market situation gave no positive perspective, so the management and advisory board decided on Feb 27, 2003 to restrain from fueling further cash and to write off the RCT investment to zero. Consequently, RCT was taken out of the M+M group consolidation as of Dec 31, 2002, and the resulting total net loss was booked in the P&L statement for 2002 to the item ‘net loss from discontinued operation’ in accordance with IAS 35.

Strategic minority shareholdings
In addition to the Technology subsidiaries, M+M is holding five strategic minority shares rounding up the market position in some niche markets.

In the Architecture/Construction area M+M holds shares in CTB GmbH & Co KG, Buchholz near Hamburg (M+M share 19.9%) and in SOFiSTiK AG, Oberschleissheim/ Nuremberg (M+M share 14.0%).
CTB and SOFiSTiK are both offering high-quality software solutions for architecture, civil engineering and statics.

An important strengthening in the GIS field is the 20% shareholding in C-Plan AG, Muri near Berne, Switzerland.
C-Plan develops complete solutions for local governments and is successfully selling them in Switzerland and increasingly in Germany and other European countries.

Further shares are held in YELLO! AG, Wiesbaden (M+M share 29.3%), offering visualization and animation solutions mainly for TV stations and studios, and in CYCO BV, Netherlands (M+M share 7.4%), a leading supplier of EDM (Engineering Document Management) in the worldwide Autodesk market environment.

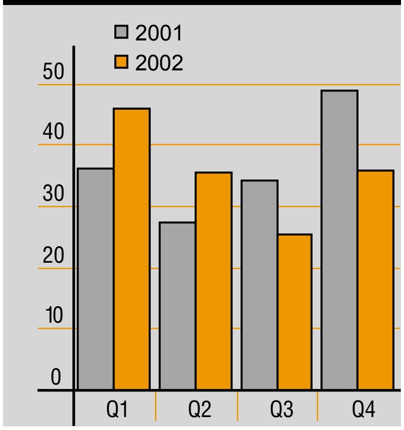
Course of business 2002 and situation of the group

The year 2002 was a difficult year for the economy in general and for the software industry in particular.

First half year still performing strongly

For M+M, however, business development initially was very positive:
During first half year, sales increased by 29%, which was not only impacted by the first-time consolidation effects from the Technology Offensive, but also by a strong development in the VAD business unit contributing a remarkable 17% revenue growth.

Quarterly revenue (in million EUR)



Negative trend turn in Q3

In third quarter the situation turned abruptly: Instead of an increase, there was a 25% decrease in the quarterly sales. M+M had estimated a certain slowdown of growth dynamics, but not in this order of magnitude.

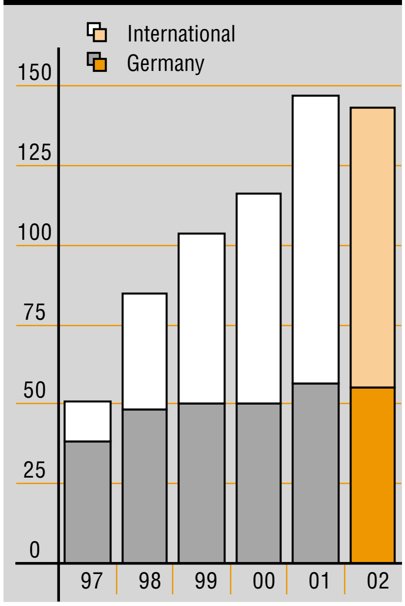
Relative recovery in fourth quarter

Fourth quarter then saw a relative recovery: Revenue in Q4/2002 was more than 40% higher than in third quarter, but still stayed approximately 25% behind the strong previous year's quarter Q4/2001.

Moderate sales decrease for full year

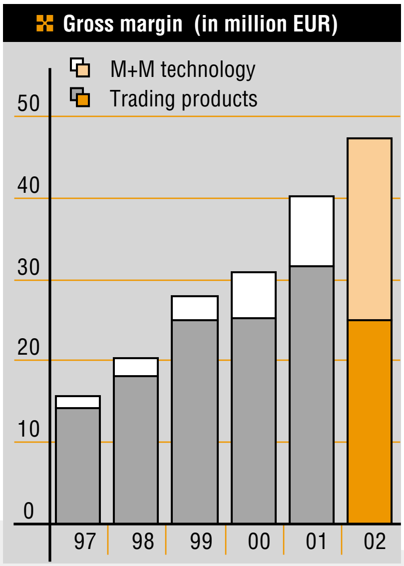
For full fiscal year there was a reduction in revenue by 3% to EUR 143.1 mln (PY 146.8). Compared to the market, Mensch und Maschine performed quite well, though, mainly thanks to the Technology Offensive. The revenue leap of 163% to EUR 27.3 mln (PY 10.4) in M+M technology, which was mainly due to the first time consolidation effect of the new subsidiaries could nearly compensate for the sales reduction by 15% in the VAD business unit to EUR 115.8 mln (PY 136.4).

Group revenue (in million EUR)



Technology Offensive boosts gross margin
Even more positive was the impact of the Technology Offensive after deduction of cost of revenues: Gross margin from M+M technology jumped nearly equal to sales by 161% to EUR 22.1 mln (PY 8.5) and could more than compensate the negative development in trading products of approximately 20% to EUR 25.1 mln (PY 31.6), resulting in a gross margin increase on a yearly base by 18% to EUR 47.2 mln (PY 40.0) in the group.

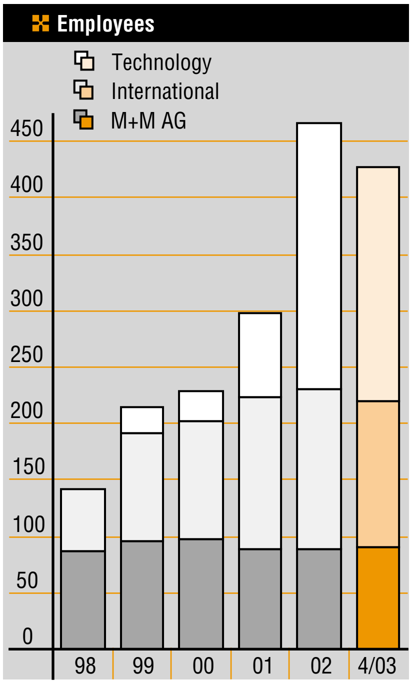
Gross margin tripled in five years
As a result, gross margin has tripled within the five years since M+M's IPO in 1997 from EUR 15.8 mln to EUR 47.2 mln.
The average annual growth rate was 25%, not only outperforming the annual sales increase of 23% but also showing a much more steady development:
While the annual sales increase had a variation range from +67% to -3%, the gross margin growth remained in a much tighter range from +18% to +37% per year.



Cost push from Technology subsidiaries ...
Due to first time consolidation of the new Technology subsidiaries with around 180 employees at the beginning of 2002, there was a significant cost push until June 30, 2002, resulting in an increase of more than 60% compared to previous year.

... significantly slowed down by end of year
The increasing use of synergy effects while integrating the new subsidiaries, in conjunction with the cost cutting programme initiated during third quarter damped the increase in operating expenses for the whole year to a much more moderate level. Sales and Marketing expenses grew by 47% to EUR 29.4 mln (PY 19.9), while General and Administrative expenses climbed up 40% to EUR 12.1 mln (PY 8.7).

Synergy effects reducing headcount
The headcount re-engineering highlights the flatenning of expenses towards year end: First the number of employees increased from 297 in fiscal year 2001 to a maximum level of 484 at April 1, 2002, and then decreased due to the synergy effects during the year, to 441 persons at Dec 31, 2003. This development is continuing in the first half of 2003: At April 1, 2003, the headcount in the M+M group is down to 427, being 9% lower than the 2002 average of 467 persons and 12% below the peak level at April 1, 2002.



After the steep increase during the Technology Offensive, the synergies have started to take effect:
The number of employees at April 1, 2003 amounts to just 427 persons compared to a 467 average in fiscal year 2002.

R&D expenses nearly doubled
As a natural result of the Technology Offensive, the Research and Development expenses recorded the highest increase, climbing to EUR 9.1 mln without effects from the capitalization of development costs. This is nearly double the amount of EUR 4.7 mln recorded in the previous year. Continuing the capitalization of development costs as carried out so far in accordance to IAS 38, a major part of these expenses would have been capitalized, boosting the corresponding asset position in the balance sheet to more than EUR 6 mln.

Development costs are no longer capitalized
The capitalization of development costs, however, was not continued and additionally the corresponding asset as of Dec 31, 2001 was completely impaired, because the criteria for capitalization according to IAS 38.45 was not fulfilled with sufficient probability.

One-time charge in 2002 ...
This change causes an extraordinary loss in the amount of EUR 4.5 mln (damped by the release of corresponding deferred taxes amounting to EUR 1.7 mln) and beyond this has a negative impact on the recorded operating result 2002 because of the missing new capitalization.
The EBITA thus is recorded approximately EUR 4.3 mln lower than in the case of continued development cost capitalization.

... relieving future balance sheet and P&L
These negative effects amounting to total EUR 7.1 mln net will relieve future earnings calculations: Development costs which are not capitalized do not have to be depreciated in the future but represent hidden reserves.

Better comparability with HGB and US-GAAP
Additional to clearing the balance sheet, there are two more advantages:
The comparability with companies using HGB or US-GAAP accounting rules is improved tremendously, and the R&D expenses are directly readable in the P&L statement, no longer being destorted by capitalization and depreciation.

Slightly positive operating result
The operating result before interest, taxes, depreciation and amortization (EBITDA) was slightly positive in spite of the missing capitalization of development costs and amounted to EUR 0.5 mln (PY 10.6).

International business remained profitable
After deduction of depreciation on fixed assets amounting to EUR 1.8 mln, EBITA was EUR -1.3 mln (PY 7.8). This amount comprises a positive contribution from the international business of EUR 4.5 mln (PY 6.1) and an operating loss from Germany of EUR 5.8 mln (previous year: gain EUR 1.7 mln) - see geographical seg-

mentation on page 25. This shows that the cost push from the Technology Offensive, alone impacting the development expenses by an amount of EUR 4.5 mln exclusively inside Germany, could not yet be fully digested, while the international business proved relatively stable in spite of the unfavourable economic conditions.

Linear goodwill amortization marking the difference to US-GAAP

After amortization of goodwill amounting to EUR 1.4 mln (PY 1.6), the result before interest and taxes (EBIT) was EUR -2.7 (PY 6.2). Compared with companies using US-GAAP please note that there is no more linear amortization on goodwill but regular impairment tests for checking the goodwill values. In IAS, the corresponding rule change is already announced and probably will be applicable retroactive as of Jan 1, 2003 ("early adoption").

With regard to this expected rule change, the linear amortization on goodwill was applied over a lifetime of 20 instead of 10 years as before. This reduced the amortization by an amount of EUR 1.0 mln.

Lowered credit interest rate level

Net interest expense was EUR -2.1 mln (PY -1.9 / +12%). It developed clearly disproportionate to debt level increasing by 18% on yearly average to EUR 33.1 mln (PY 28.0). Here the lower interest rate level on the financial market became effective: The average interest rate paid decreased to 6.3% after 6.7% in previous year.

Non-recurring charges straining result

The pretax result was significantly strained by non-recurring charges: After deduction of impairment on financial assets (YELLO!) in the amount of EUR 1.2 mln (PY 0.75) and other non operating charges (mainly impairment on development costs plus restructuring costs and provisions) amounting to EUR 6.5 mln (PY 0.1) as well as currency exchange differences, it resulted to EUR -12.7 mln (PY 3.8).

After settling the tax credit total amounting to EUR 3.8 mln (previous year tax load of EUR 1.3 mln) and of other taxes, the net loss from continuing operations was reduced to EUR -9.2 mln.

According to IAS 35 the effect from discontinued operations has to be shown net of taxes below the regular net result. After deduction of non-recurring charges for the deconsolidation of RCT GmbH amounting to EUR 5.1 mln, the net result was EUR -14.3 mln (PY 2.3) or EUR -2.84 per share (PY 0.53).

The net result contains the following non-recurring charges:

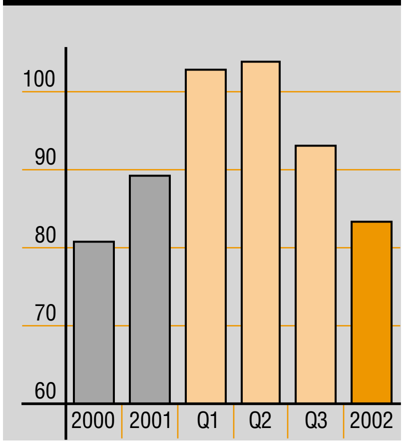
Loss from discontinued operation	EUR	-5.1 mln
Missing capitalization of development costs	EUR	-7.1 mln
Impairment of YELLO!	EUR	-1.2 mln
Restructuring costs net of taxes	EUR	-1.2 mln
Total	EUR	-14.6 mln

Without these non-recurring charges totalling higher than net loss, net result would be positive EUR 0.3 mln or EUR 0.06 per share after goodwill amortization and EUR 1.6 mln or EUR 0.32 per share before goodwill amortization.

Total assets lowered in spite of expansion
Due to the cleaning up of the balance sheet, total assets decreased in spite of the first time consolidation of new Technology subsidiaries OPEN MIND, ECS, DATAflor and AIM as well as M+M Belgium, by 7% to EUR 83.2 mln (PY 89.2).

The quarterly development shows that total assets due to the first time consolidations increased in the first and second quarter up to EUR 103.8 mln at June 30, 2002, before the initiated optimization measures became effective, lowering total assets by about EUR 10 mln each in Q3 and Q4.

Total assets (in million EUR)



Inventories significantly decreased
On the assets side, trade accounts receivable decreased approximately in line with the slowdown of business volume in Q4 by 20% to EUR 25.2 mln (PY 31.5). Due to the progress made in optimizing backoffice processes the inventory could even be lowered by 33% to EUR 9.6 mln (PY 14.4). The total value tied up in current assets decreased by 24% to EUR 41.3 mln (PY 54.0).

Moderate increase of non-current assets
The increase of non-current assets remained relatively moderate at 19% to EUR 42.0 mln (PY 35.3).
Fixed assets climbed by 77% to EUR 4,2 mln (PY 2,4) due to first time consolidations, but on the other hand intangible assets shrunk due to the cancellation of development cost capitalization by 77% to just EUR 1.2 mln (PY 5.25).

The goodwill increase to EUR 25.2 mln (PY 15.6 / +61%) results from additions at OPEN MIND, ECS, DATAflor, AIM and EUKLID, the disposal of the RCT share and linear amortization.
The position notes receivable / loans, which in the previous year had amounted to EUR 4.1 mln, ceased completely, because the largest part thereof corresponded to loans of M+M AG to companies which were fully consolidated.
Tax assets increased due to tax credits from group loss and from first time consolidations by 106% to EUR 6.9 mln (PY 3.3).

More non-current liabilities
On the liabilities side, total current liabilities reduced slightly to EUR 57.0 mln (PY 58.3 / -2%), resulting from an 8% increase in short term debt to EUR 28.2 mln (PY 26.1) and a 16% decrease in trade accounts payable to EUR 19.9 mln (PY 23.6).
The increase in total non-current liabilities by 149% to EUR 8.0 mln (PY 3.2) was mainly caused by long term debt raising to EUR 7.3 mln (PY 1.1 / +561%). This increase was caused firstly by mortgage loans from the new M+M subsidiaries DATAflor and ECS for their company buildings, contained in the fixed assets, and secondly by using discretionary exceptions for the long-term part of a bank credit with unscheduled repayment rights, which in 2002 was rebooked from short-term debt, as in previous years, to long-term debt.

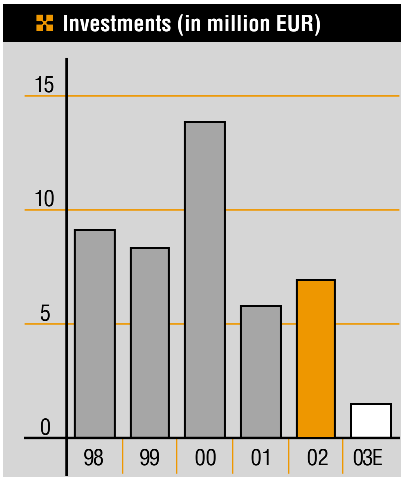
Capital ratio still above 20%
Concerning the equity roll-forward, the subscribed capital increased by 14% to EUR 6.4 mln (PY 5.7) and the capital reserve surged 30% to EUR 26.5 mln (PY 20.5) from the contribution in kind OPEN MIND AG. On the other hand, the accumulated deficit amounting to EUR 15.3 mln (previous year retained earnings EUR 1.4 mln) had a negative impact.
In total shareholders' equity decreased to EUR 17.8 mln (PY 27.8 / -36%), the capital ratio is now 21.3% after 31.1% in 2001. Equity per share was EUR 3.52 (not diluted).

Investment phase since IPO …
M+M has invested heavily in the years since the IPO 1997. Investments were made on one hand for international expansion, pushing M+M into the group of leading CAD vendors in Europe, and on the other hand in the course of the Technology Offensive, balancing the product portfolio across trading products and M+M technology.

The vertex of investment activities was passed in the year 2000, when cash investments amounting to EUR 13.9 mln were made. In the two following years, cash investments totalled significantly lower: 2001 at EUR 5.8 mln and 2002 at EUR 6,9 mln.

The cash investments in past fiscal year primarily served for rounding up the shareholdings portfolio in the course of the Technology Offensive, whilst the acquisition of OPEN MIND as the largest Technology subsidiary was performed, saving liquidity by means of a share swap.

… completed by the Technology Offensive
After completion of the Technology Offensive, this investment phase is completed for the time being. From 2003 onwards current yearly investments for fixed assets in the order of magnitude of one to two million Euro will be sufficient, so the operating cashflow can be used mainly to reduce the net amount of debt owed.



Risks

The operations and activities of the M+M group are subject to various risks. The risk management is controlled directly at board level by monitoring risk relevant parameters from the individual group segments and by comparison with the internal targets, to allow for a timely reaction in case of changes within the enterprise or in the enterprise's environment.

In detail, the following risk categories exist:

Credit risks:

Bad debt risks are counteracted with customer credit insurance, individual bad debt provisions, as well as streamlined receivables management.
Also favourable in this respect is the fact that sales are divided among many individual customers each of which carries less than 3% 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 and market 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 counteracted, as far as possible, by the vertical and regional division of the M+M Group as well as by the spread across several product lines, but risk may not always be fully compensated by these actions.
Particularly, the risk of missing market acceptance has increased which can have a stronger impact on self developed software in the course of the Technology Offensive. On the other hand the impairment of capitalized development costs removed the risk of additional writeoffs in such assets. The Three Pillar Strategy is a risk dversification through extending the product portfolio with new lines from an additional major vendor PTC. However potential sales risks are introduced from this strategy, which is unfamiliar to M+M, particularly in the initial phase.

Personnel risks:

As an enterprise in the software industry, M+M is in principle dependent on individuals with special skills.
M+M’s distinctive corporate culture, so far, has been instrumental in keeping employee turnover exceptionally low.
The risk of dependence upon key top management people has been counteracted by appointing six individuals to the management board and by strengthening the secondary management level.

Supplier risks:

Concentartion on a single main supplier, Autodesk, represent a certain risk through dependency on that supplier's product development, market competence and operational policy. Diversification, under the Three Pillar Strategy, to a second technology supplier PTC spreads this risk. However new risk is introduced from conducting parallel sales of potentially competing lines in the market and managing the relationship with the suppliers.

Losses at subsidiaries and shareholdings:

In all shareholding or subsidiary relationships, it is recognised that there is a risk that contrary to positive expectations a negative development may occur possibly proceeding to total loss.
This risk is counteracted by the management of the shareholdings in order to discover such events at an early stage and by spreading the risk across relatively small individual shareholdings.

Financing risk:

As like in any business model not exclusively financed by equity, there is a dependency risk for the debt financed part due to the refinancing capabilities of the financial market. This risk is counteracted by distribution of relatively many smaller credit lines at several banks inside and outside Germany. Thus during FY 2002 the average credit interest rate paid in the group could be lowered from 6.7% to 6.3% in spite of an increased credit requirement, benefiting from the lowering of the key interest rates by the European Central Bank. For the future it cannot be excluded, though, that the refinancing interest rate payable by M+M may develop negatively or the refinancing by debt may fail in parts or in total, which would cause serious problems for the liquidity of the group.
In this respect, internal as well as external influences play a roll. Internal influences are mainly the earnings and financial status impacting the M+M market rating, as well as the management’s ability in handling relationships with existing and potential creditors. External influences are for example the general interest rate level on the market, the credit policy of banks and other creditors, as well as the legal framework conditions like the Basel-II-Guidelines being intensively discussed. Also the present crisis in the German banking sector may have a negative impact on the financing abilities, e.g. through breakdowns of banks (see Gontard&Metallbank) or through withdrawal of banks from the corporate banking sector.

Altogether higher opportunity/risk-profile

All in all it can be stated that the ongoing changes in the M+M business model represent an extension of the opportunity/risk-profile: The attached opportunity to increase the profit margin this far, has just been realized for the gross margin, but not yet for the earnings margin, while the attached risks are most likely during the initial phase. Equally, the increased debt level results in a higher financing risk.

Outlook

The year 2003 will be used by M+M to consolidate the strategic developments already being initiated:

- **Three-Pillar-Strategy:**
  The marketing start for Pro/ENGINEER Wildfire at March 1, 2003 has been very encouraging with lively demand both from resellers and from end users.
  We are estimating dynamically growing sales and margin contribution from the PTC business in the course of the year. As well, the new product platform AutoCAD 2004 will be available in the Autodesk portfolio from second quarter, which is expected to increase demand both from new and existing customers.

- **Technology Offensive:**
  After the strong growth of fiscal year 2002 in this area we estimate for 2003 consolidation of sales and gross margin. Due to significantly lowered expenses by using synergistic effects, a positive earnings contribution is estimated from the Technology subsidiaries.

- **Further optimization of balance sheet:**
  Management still sees optimization potential in inventories as well as in trade accounts receivable.
  The target is to further decrease current assets by about EUR 10 mln in the course of the year in order to lower the net amount of debt owed accordingly, improving the balance sheet structure as well as the financial result.

Due to these corner stones we expect a moderate increase in sales to a level over EUR 150 mln and passing the mark of 50 million for gross margin. Towards year end, dynamics should increase, particularly because of the ramp up effect in PTC business.

Target 2003: Positive results
In conjunction with the reduced expenses due to the decreased headcount it should be possible to increase the operating result by about EUR 5 mln and achieve earnings before amortization, interest and taxes (EBITA) in the range from EUR 3 to 4 mln. Along with this, a slightly positive net result and in together with the targeted decrease of current assets an operating cashflow above EUR 5 mln should be achievable.

Target 2004: One Euro per share
In fiscal year 2004, the business should be balanced rather equally on gross margin level across M+M technology, Autodesk and PTC products due to the Three-Pillar-Strategy. Target for 2004 is at least to improve the operating result by further EUR 5 mln and achieve net earnings above EUR 5 mln or EUR 1.00 per share.
It business development during 2003 should prove that this target is not likely to be achieved from the income side only, management will further initiate appropriate action on the expense side.

Thanks to employees and shareholders
The management team would like to take the opportunity to thank all employees for their enormous engagement during the past fiscal year, helping the M+M group to gain a respectable result and a further market postion stabilization in a difficult market and economic environment.
As well, we would like to express our thanks to our shareholders for their loyalty to your Mensch und Maschine Software AG in a stock market climate that is really not easy.

Wessling, March 31, 2003
Mensch und Maschine Software AG
The Board of Management

Advisory Board Report

During the year under review, the Advisory Board of 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. During fiscal year 2002, four joint board meetings took place on March 13, May 13, October 8 and December 20, 2002. Additionally, outside the setting of the official meetings, there were discussions between Management and Advisory Board on company policy and business development. There were no additional Advisory Board committees.

Outside the official meetings management consulted the Advisory Board in all important matters of the company. The Advisory Board shared these decisions within the scope of its obligations. Particularly the Advisory Board reviewed the OPEN MIND acquisition before approving the decision to increase the share capital for this transaction. Advisory and Management Board at the end of fiscal year 2002 explicitly commited to the recommendations for responsible corporate governance fixed in the German Corporate Governance Codex and voluntarily commited to actions exceeding the codex. The shareholders of Mensch und Maschine Software AG thus shall be informed even more transparently and better than before.

The annual report of Mensch und Maschine Software AG as of December 31, 2002 including the management report, as well as the group annual report as of December 31, 2002 including the management report for the group was set up by the Management Board and audited by Ernst & Young Deutsche Allgemeine Treuhand AG Wirtschaftspruefungsgesellschaft (auditing firm), Munich, and endorsed with an unqualified audit opinion. The Advisory Board also reviewed the Management Board's set up which, together with the auditing reports from the auditing firm was available to all members of the Advisory Board. The auditor took part in the annual fiscal year report meetings on March 19 and 31, 2003, and reported upon all significant results of the audit. The Advisory Board finally agrees to the annual report and group annual report, raising no objections after its own review.

The Advisory Board approves the annual report and group annual report, both set up by the Management Board. The annual report thus is adopted in accordance to §172 AktG.

With effect to the end of last year's ordinary shareholders' meeting, the Advisory Board member Theodor Beisch retired from his duty. The Advisory Board thanks Mr. Beisch for his long-standing positive cooperation. The shareholders' meeting on Mai 13, 2002 elected Mr. Thomas Becker member of the Advisory Board for the remaining period of office of resigned member Theodor Beisch.

The dedication and commitment displayed by management and employees again contributed fundamentally to the company's commercial success during fiscal year 2002. 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 31, 2003
The Advisory Board

Friedrich Soldner
Chairman

Statement of income (IAS)

Amount in KEUR	Note*	2002		△%	2001	
Revenues		**143,118**	**100%**	-3%	**146,830**	**100%**
Cost of revenues	1	-95,881	-67.0%	-10%	-106,832	-72.8%
Gross margin		**47,237**	**33.0%**	+18%	**39,998**	**27.2%**
Selling and marketing expenses	2	-29,364	-20.5%	+47%	-19,932	-13.6%
General and administrative expenses	3	-12,114	-8.5%	+40%	-8,682	-5.9%
Research and development expenses	4	-9,080	-6.3%	+95%	-4,660	-3.2%
Other operating income	5	1,997	1.4%	+60%	1,249	0.9%
Other operating expenses		0			-219	-0.1%
Operating income / loss before amortization of goodwill (EBITA)		**-1,324**	**-0.9%**		**7,754**	**5.3%**
Amortization of goodwill		-1,374	-1.0%	-13%	-1,572	-1.1%
Operating income / loss (EBIT)		**-2,698**	**-1.9%**		**6,182**	**4.2%**
Interest income and expense	6	-2,092	-1.5%	+12%	-1,870	-1.3%
Income from investments and participations		27	0.0%		224	0.2%
Depreciation on financial assets	7	-1,170	-0.8%		-750	-0.5%
Foreign currency exchange gains/losses		-243	-0.2%		124	0.1%
Other income/expenses	8	-6,542	-4.6%		-76	-0.1%
Result before income taxes (EBT)		**-12,718**	**-8.9%**		**3,834**	**2.6%**
Taxes on income	9	3,769	2.6%		-1.295	-0.9%
Other taxes		-253	-0.2%		-193	-0.1%
Net result from continuing operations		**-9,202**	**-6.4%**		**2,346**	**1.6%**
Net loss from discontinued operations	10	-5,094	-3.6%		0	
Result before minority interest		**-14,296**	**-10.0%**		**2,346**	**1.6%**
Minority interest		0			0	
Net income / loss		**-14,296**	**-10.0%**		**2,346**	**1.6%**
Net income per share (basic)	11	-2.84			0.53	
Net Income per share (diluted)		-2.74			0.51	
Weighted average shares outstanding in million (basic)	11	5.042		+14%	4.438	
Weighted average shares outstanding in million (diluted)		5.226		+14%	4.581	

* see notes on pages 34/35

Balance sheet (IAS)

Amounts in KEUR	Note*	Dec 31, 2002		△%	Dec 31, 2001	
Cash and cash equivalents		1,249		-67%	3,822	
Trade accounts receivable	12	25,153		-20%	31,486	
Accounts receivable due from related parties		764		+454%	138	
Inventories	13	9,623		-33%	14,437	
Prepaid expenses and other current assets	14	4,475		+10%	4,074	
Total current assets		**41,264**	**49.6%**	**-24%**	**53,957**	**60.5%**
Property, plant and equipment		4,196		+77%	2,368	
Intangible assets		1,190		-77%	5,250	
Goodwill	15	25,172		+61%	15,592	
Investments	16	4,489		-3%	4,625	
Notes receivable / loans		0			4,090	
Deferred taxes	17	6,911		+106%	3,349	
Total non-current assets		**41,958**	**50.4%**	**+19%**	**35,274**	**39.5%**
Total Assets		**83,222**	**100%**	**-7%**	**89,231**	**100%**
Short term debt and current portion of long-term debt	18	28,230		+8%	26,085	
Trade accounts payable		19,912		-16%	23,591	
Accounts payable due to related parties		516		+86%	278	
Advance payments received		115			0	
Accrued expenses	19	3,628		+45%	2,499	
Deferred revenues		462			0	
Income tax payable		849		+30%	655	
Other current liabilities	20	3.327		-36%	5,178	
Total current liabilities		**57,039**	**68.5%**	**-2%**	**58,286**	**65.3%**
Long-term debt, less current portion	21	7,261		+561%	1,098	
Deferred taxes		135		-92%	1,663	
Pension accruals	22	297		+1%	294	
Other accruals		177		+29%	137	
Other non current liabilities		81			0	
Total non-current liabilities		**7,951**	**9.6%**	**+149%**	**3,192**	**3.6%**
Minority interest		**472**	**0.6%**		**0**	
Share capital	23	6,445		+14%	5,676	
Additional paid-in-capital	24	26,513		+30%	20,457	
Other reserves		221			221	
Retained earnings / accumulated deficit		-15,333			1,367	
Currency conversion		-86			32	
Total Shareholders' equity		**17,760**	**21.3%**	**-36%**	**27,753**	**31.1%**
Total Liabilities and Shareholders' equity		**83,222**	**100%**	**-7%**	**89,231**	**100%**

* see notes on pages 36 to 40

Statement of cash flows (IAS)

Amounts in KEUR	Note*	2002	2001
Net profit / loss		**-14,296**	**2,346**
Minority Interest		0	0
Depreciation and amortization		12,396	5,192
Increase/decrease in provisions and accruals		1,172	1,435
Losses/gains on the disposal of fixed assets		267	0
Change in net working capital		2,143	-2,726
Net cash provided by operating activities	25	**1,682**	**6,247**
Acquisition of subsidiaries, net of cash acquired		-3,279	-640
Purchase of property, plant and equipment		-3,648	-5,146
Net cash used in investing activities		**-6,927**	**-5,786**
Proceeds from issuance of share capital		0	25
Proceeds from short or long-term borrowings		4,344	1,168
Payments to shareholders		-1,554	-1,188
Net cash provided by financing activities		**2,790**	**5**
Net effect of currency translation in cash and cash equivalents		-118	27
Net increase / decrease in cash and cash equivalents		**-2,573**	**493**
Cash and cash equivalents at beginning of period		**3,822**	**3,329**
Cash and cash equivalents at end of period		**1,249**	**3,822**

* see note on page 40

Development of shareholders' equity

Amounts in KEUR	Subscribed Capital	Capital Reserve	Other Reserves	Profit/ Loss	Currency exchange	Total Equity
As of Jan 1, 2001	**5,449**	**18,219**	**143**	**1,095**	**5**	**24,911**
Dividend for 2000				-1,188		-1,188
Exercising of options	3	22				25
M+M Switzerland contribution in kind	224	2,216				2,440
Earnings / losses of the year				2,346		2,346
Currency conversion					27	27
Addition to reserves			78	-78		0
Minority shares				-808		-808
As of Dec 31, 2001	**5,676**	**20,457**	**221**	**1,367**	**32**	**27,753**
Dividend for 2001				-1,554		-1,554
OPEN MIND contribution in kind	769	6,056				6,825
Earnings / losses of the year				-14,296		-14,296
Currency conversion					-118	-118
Minority shares				-850		-850
As of Dec 31, 2002	**6,445**	**26,513**	**221**	**-15,333**	**-86**	**17,760**

Segment reporting

The consolidated financial statement comprises a segment report according to IAS 14.

Geographical segmentation

The primary segment is geographic and distinguishes product and service revenues by the group companies inside and outside Germany.
Within the primary segmentation, expenses as well as amortization of goodwill are reported separately for the two segments Germany and International, allowing for a segment specific report of gross profit as well as operating income before and after amortization of goodwill. Additionally, the distribution of fixed assets, investments of the fiscal year and liabilities is separately reported for Germany and International.

Secondary segmentation

Amounts in KEUR	2002				2001			
	M+M technology		Trading products		M+M technology		Trading products	
Revenues	**27,321**	**19%**	**115,797**	**81%**	**10,400**	**7%**	**136,431**	**93%**
Cost of revenues	-5,200	5%	-90,681	95%	-1,923	2%	-104,842	98%
Gross margin	**22,121**	**47%**	**25,116**	**53%**	**8,477**	**21%**	**31,589**	**79%**

Secondary segmentation

The secondary segmentation differentiates M+M technology from trading products. The first category contains all proprietary products developed within the M+M group or exclusively licenced by M+M as well as service revenues, the second category contains all trading products sold by the M+M group. This mainly applies to the segment "Value-Added-Distribution" of Software technology from main supplier Autodesk.

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 in a reliable form.

Geographical segmentation

Amounts in KEUR	2002				2001			
	Germany		International		Germany		International	
Revenues	**55,058**	**38%**	**88,060**	**62%**	**56,586**	**39%**	**90,244**	**61%**
Cost of revenues	-30,999	32%	-64,882	68%	-38,883	36%	-67,949	64%
Gross margin	**24,059**	**51%**	**23,178**	**49%**	**17,703**	**44%**	**22,295**	**56%**
Sales and marketing expenses	-15,555	53%	-13,809	47%	-8,110	41%	-11,822	59%
General and administrative expenses	-6,808	56%	-5,306	44%	-4,046	47%	-4,636	53%
Research and development expenses	-9,080	100%	0	0%	-4,660	100%	0	0%
Other operating income	1,605	80%	392	20%	824	66%	425	34%
Other operating expenses	0		0		-23	11%	-196	89%
Operating income before goodwill amortization (EBITA)	**-5,779**		**4,455**		**1,688**	**22%**	**6,066**	**78%**
Net loss from discontinued operations	-5,094		0		0		0	
Impairment of assets	-5,666		0		-750		0	
Fixed assets	21,746	62%	13,301	38%	16,190	51%	15,735	49%
Investments	6,101	88%	826	12%	5,085	88%	701	12%
Liabilities	34,642	53%	30,348	47%	26,508	43%	34,970	57%

Notes

General Remarks

Basis of the group financial statement
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 Board (IASB).
In connection with drawing up the group financial statement according to the International Accounting Standards (IAS), no group financial statement according to the German accounting standards (HGB) was drawn up in accordance to §292a HGB. The group financial statement was set up in accordance to the 4th and 7th EU Guidelines as interpreted by the German standardization board (DSR) in the German Accounting Standard Nr.1 (DRS 1 - Befreiender Konzernabschluss according to §292a HGB).

M+M group consolidated companies	
Mensch und Maschine Systemhaus GmbH, Wessling, Germany	100%
Mensch und Maschine Akademie GmbH, Bad Boll, Germany	100%
Mensch und Maschine Software AG, Riehen (Basel), Switzerland	100%
Mensch und Maschine Software Ges.m.b.H., Salzburg, Austria	100%
Man and Machine S.a.r.l., Bagnolet (Paris), France	100%
Man and Machine Software s.r.l., Vimercate (Milan), Italy	100%
Man and Machine Software Sp.ZO.O., Lodz, Poland	100%
Man and Machine UK Ltd., Thame, UK	100%
Man and Machine AB Sundbyberg (Stockholm), Sweden	100%
EUKLID Software GmbH, Stuttgart, Germany	100%
DATAflor Software Aktiengesellschaft, Goettingen, Germany and 100% shareholdings: DATAflor EDV fuer die gruene Branche GmbH, Goettingen, Germany DATAflor Vertriebs GmbH, Grossbeeren, Germany	57,1%
AIM GmbH, Karlsfeld near Munich, Germany	50,1%
Elektro-CAE-Software GmbH (ECS), Donzdorf, Germany	60%
OPEN MIND Technologies AG, Unterfoehring, Germany and 100% shareholdings: OPEN MIND Software Technologies GmbH, Unterfoehring, Germany OPEN MIND Technologies Vertriebs GmbH, Unterfoehring, Germany OPEN MIND Technologies Deutschland GmbH, Kirchheim/Teck, Germany OPEN MIND Software Technologies USA Inc., Detroit / Michigan, USA OPEN MIND Software Technologies PTE Ltd., Singapore OPEN MIND Software Technologies Italia s.r.l., Rho (Mailand), Italy OPEN MIND Software Technologies S.a.r.l., Le Bourget du Lac Cedex, France OPEN MIND Software Technologies UK Limited, Thame, UK	100%

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.

In addition to the parent company, the companies listed in the table on page 26 were fully consolidated in the group financial statement of December 31, 2002.

Closing accounting date for the subsidiaries included in the group consolidated financial statement is December 31.

In the case of Man and Machine Benelux NV, Elektro-CAE-Software GmbH and the companies of the DATAflor and OPEN MIND groups, first time consolidation was performed as of Jan 1, 2002, in the case of AIM GmbH as of April 1, 2002.
RCT Research GmbH which had been first time consolidated as of Dec 31, 2001, was deconsolidated as of Dec 31, 2002.

In the year under review, Staufen Akademie Bad Boll Privates Schulungszentrum fuer Datenverarbeitung GmbH was renamed to Mensch und Maschine Akademie GmbH.

The financial statements of all group companies were drawn up on the basis of common accounting principles. As far as there is an obligation to examine, they are audited by independent auditors and endorsed an unqualified auditing opinion.

Estimations and assumptions
Drawing up the group financial statement required estimations and assumptions which can impact the amounts of assets, liabilities and financial obligations at closing date as well as returns and expenses in the fiscal year unter review. The actual amounts can differ from these estimations and assumptions.

Changes in estimations and assumptions
Goodwills are amortizised over a period of 20 instead of 10 years as in previous years, because the useful life is not limited and impairments are detected by the regularly performed impairment tests.
This improves the result in the year under review by KEUR 995.

Principles of consolidation

Capital consolidation
Capital is consolidated pursuant to IAS 22.17 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. Date of acquisition is the date at which Mensch und Maschine AG takes over effective control over the company. Normally, this is the time at which the majority of the voting rights is acquired.

The differences arising from the consolidation of capital, to the extent that they are assets, are indicated as goodwill under non-current assets. There were no negative differences in the M+M group.
Minority shares are valued at closing time with their share in shareholders’ equity respective earnings of the year of the particular subsidiary.

For Mensch und Maschine rule IAS 27.27 is applied saying that negative minority shares have to be settled with shareholders’ equity and that no minority shares’ debit or credit shall be applied to group income statement as long as no positive minority share results which, according to IAS 27.26, has to be shown separated from liabilities and shareholders’ equity in the group balance sheet.

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.

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 EUR 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 included 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-of-sales method. In accordance with IAS 1, the balance sheet is apportioned into current and non-current assets and into current and non-current liabilities.

Accounting and valuation methods

Cash and cash equivalents

Mensch und Maschine shows credit balances at banks under cash and cash equivalents. Foreign currency credit balances are converted by exchange rate at closing date. Securities with terms shorter than 3 months which have to be shown under cash and cash and cash equivalents according to IAS 7.6 do not exist in the M+M group.

Non-current assets

Intangible and tangible assets are reported at cost of acquisition less scheduled depreciation.

Goodwill is depreciated over a period of ten years. Should it emerge that the on-balance sheet net book value for goodwill is higher than the pro rata or full goodwill amount calculated according to recognized methods, non-scheduled depreciation is performed to the extent of the difference in accordance with IAS 22.56 in conjunction with IAS 36 (Impairment Test).

Low value items are written off in full in the year of purchase.

According to IAS 38, 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 38.45 must be satisfied.
The criteria for capitalization in the M+M group are not satisfied with sufficient probability.
Therefore development costs were not capitalized in FY 2002.

Investments

Financial assets include shareholdings in other companies as well as loans to companies in which shares are held.
The reported shareholdings are exclusively shareholdings without substantial influence. Consequently, it is not necessary to value them pursuant to IAS 28 (Accounting for Investment in Associates). Pursuant to IAS 22.24, shares in companies that do not fall in the category group companies and associated companies, are to be valued pursuant to IAS 39 (Financial Instruments).
In accordance with IAS 39.66, all shareholdings are reported at cost of acquisition the first time they are recorded, corresponding to the fair value of the stated asset. This is the equivalent of cash or cash equivalents. The shareholdings reported within the Mensch und Maschine Group are financial assets available-for-sale pursuant to IAS 39.10 as none of the other categories under IAS 39 apply. As the financial assets do not have a listed market price on an active market and it is therefore impossible to reliably calculated a fair value, the subsequent valuation is also at cost of acquisition (IAS 39.68-73), whereby all shareholdings are checked for signs of depreciation (Impairment Test).

In general, the shareholdings are checked for depreciation by means of valuations which are taken as a basis when the shares in shareholdings are transferred.
The transactions invoked for the purposes of valuation take place between third parties outside the Group. In addition, industry-specific multipliers are applied to check the depreciation, which are multiplied by the shareholding's sustained gross margin. Actually twice the sustained annual gross margin is taken as the maximum book value of an investment not causing an impairment.

Current assets
The valuation of inventories is geared towards the stipulations of IAS 2. The purchased materials fundamentally included in this position are reported at cost of purchase. If applicable, a value markdown is performed as a result of reduced usability. Account is taken of all identifiable risks with appropriate discounts.
Necessary individual provisions for bad and doubtful debts are created for identifiable risks relating to other current assets, such as receivables and other assets.

Borrowing costs
In accordance with IAS 23.10, borrowing costs are exclusively charged to expenditure.

Financial instruments
The M+M Group has no other portfolios of or transactions with financial instruments other than the shareholdings explained under financial assets.

Accruals
Pursuant to IAS 37.36, accruals are to be reported at the amount resulting from the best estimate of the financial outflow required to meet current the obligation as at the balance sheet date. The value stated for other accruals takes into account all identifiable risks based on past experience and where the scope and maturity is uncertain.

Pension accruals
Pursuant to the current projected unit credit method, pension accruals are reported at their defined benefit liability according to IAS 19 and cover all payments after the contract of employment has finished.

Liabilities
Liabilities are valued at their repayment value.

Foreign currency receivables and liabilities
In the individual financial statements, receivables and liabilities are translated at the rate on the balance sheet date.
Profits and losses from the translation of foreign currency receivables and liabilities are reported in the Statement of income under other income and expenses. As the income and expenses are not substantial, there are no notes relating to this position.

Principles of revenue recognition
In the M+M group, recognition of revenue occurs at that time when the risk passes to the customer. For service revenues the percentage-of-completion method is applied.

Impairment of assets
In the year under review, impairments were discovered for the following assets:

Capitalized development costs	KEUR 4,496
Goodwill	KEUR 3,513
Investments	KEUR 1,170

The capitalized development costs applied to software developed by the mother company and by subsidiary EUKLID GmbH and was allocated to the segments Germany and M+M Technology, respectively.
The impairment was performed because at closing date it was not possible to prove with sufficient probability that gross profits exceeding the sales and marketing expenses will be achievable from future sales of the software. Consequently, one of the criteria in IAS 38.45 which have to be fulfilled cumulatively for the capitalization of development cost is not fulfilled and the appropriate assets were written off to zero.

The impairment of goodwill is based on a negative going concern prognosis for the subsidiary RCT Research GmbH, which was impacted by an investment constraint of the RCT customers increasingly in the second half of the year. The impairment is applied to the goodwill at the end of the year before regular amortization. The goodwill was allocated to the segments Germany and M+M Technology, respectively. As the management of RCT GmbH has filed a petition in insolvency in February 2003, the utility value at end of 2002 was zero.

The impairment of investments applies to the purchase price of the shareholding in YELLO! AG which was written down to the utility value.

Company acquisitions

IAS 22.8 defines company acquisitions if one enterprise, the acquirer, obtaining control over the net assets and operations of another enterprise, the acquiree, whereby control presents the opportunity to govern the financial and business policies of a company so as to obtain benefits from its activities.

At April 9, 2002, 100% of OPEN MIND Technologies AG was acquired by means of a share swap retroactive as of Jan 1, 2002 (date of first time consolidation).
Further company acquisitions pursuant to IAS 22.8 are the increases in shareholdings from 20% to 60% in ECS GmbH and from 31% to 57.1% in DATAflor AG as of Jan 1, 2002 (date of first time consolidation), and from 36.5% to 50.1% in AIM GmbH as of April 1, 2002 (date of first time consolidation).

The acquisitions were realized through share swaps and cash payments amounting to KEUR 1,277 (PY: 358) and through issuing 601,358 ordinary shares at a value of EUR 11.35 per share (PY: 175,353 ordinary shares at EUR 13.92 each).

Concerning OPEN MIND, there is an contingent liability towards some of the old shareholders effective April 1, 2007, which will be payable if the M+M share price should never achieve a level of EUR 30.50 for a period of at least four weeks until then. In this case an additional purchase price payment in cash amounting to the difference of the average M+M share price to EUR 30.50 in the 30 days prior to April 1, 2007, multiplied by 96,358 will be due.
The maximum additional payment (at a M+M share price of zero) thus would be 30.50 x 96,358 = KEUR 2,939.

At the time of acquisition, the acquired companies had liquid funds totaling KEUR 444 (PY: 606). In the context of the acquisitions, non-current assets amounting to KEUR 12,210 (PY: 1,742), tax credits of KEUR 1,523 (PY: 2,046), receivables of KEUR 4,117 (PY: 1,813) and other assets (excluding cash and cash equivalents) of KEUR 1,319 (PY: 1,103) were acquired. Similarly, debts amounting to KEUR 11,507 (PY: 4,196) were included in the Group.

Stock option plans

The International Accounting Standards do not contain any directives on reporting and valuing employee benefits (IAS 19.145). There is no directive stating that corresponding personnel costs are to be booked as a result of stock options being granted and neither has Mensch und Maschine AG done so to date. Nonetheless, the company has to provide information on stock option plans, set out as follows. Since 1997, Mensch und Maschine has been offering its members of the Board of Directors and other employees stock options in the form of an option plan relaunched each year. The subscription price per share is the average closing price of the M+M share on the Frankfurt stock exchange on the first 30 trading days after the Annual General Meeting.

The earliest the subscription right can be exercised is after the waiting period has expired. The waiting period amounts to 2 or 4 years after the stock option offer.

The subscription right continues to exist four years after the waiting period has expired. The subscription right can only be exercised in certain exercise periods.

For options issued after 1999, it can also only be exercised if the stock market price of the M+M share is at least 15% above the strike price in the last 10 consecutive trading days before the respective exercise period. In 1997 and 1998, convertible profit-sharing rights ("Wandelgenussrechte") were issued as there was no legal possibility for genuine options at that time.

The options are converted by means of a capital increase from contingent capital: The conversion price thus leads to an injection of capital on the one hand and a corresponding increase in the number of shares on the other. In the last two lines of the table, the respective injection of capital for each issue year and overall is listed. The upper line only shows options exercisable as at December 31, 2002 and the lower line reports all outstanding options.

Were all 184,450 exercisable options converted, this would lead to an injection of capital amounting to KEUR 5,346.
In terms of the number of shares as at December 31, 2002 (5,041,903) and the equity as at December 31, 2002 of KEUR 17,795, this would correspond to 3.66% growth in the number of shares and a 30.0% increase in the equity.

In terms of the total number of exercisable stock options (184,450) plus those not yet exercisable (317,232), i.e. 501,682 outstanding options and an associated injection of capital amounting to KEUR 10,769, the following values are derived: number of shares +9.95% and capital growth +60.5%.

Due to a lack of definitive provisions for reporting and valuing stock option plans, we have not provided information on the fair value.

Development of stock option rights

Year of issue		1997	1998	1999	2000	2001	2002	total 97-02
Strike price	EUR	11.50	33.89	29.99	24.94	13.69	12.41	
Total number granted		70,400	116,200	90,900	88,300	113,148	124,634	603,582
as of Dec 31, 2002	exercised	45,550	600	-------	-------	-------	-------	46,150
	expired	8,600	23,600	9,700	7,100	6,300	450	55,750
	exercisable	16,250	82,000	45,600	40,600	-------	-------	184,450
not yet exercisable total		-------	10,000	35,600	40,600	106,848	124,184	317,232
exercisable as of	2003	-------	-------	35,600	-------	48,424	-------	84,024
	2004	-------	10,000	-------	40,600	10,000	62,092	122,692
	2005	-------	-------	-------	-------	48,424	-------	48,424
	2006	-------	-------	-------	-------	-------	62,092	62,092
Capital increase in KEUR for								
Exercisable options only		187	2,779	1,368	1,013	0	0	5,346
All options outstanding		187	3,118	2,435	2,025	1,463	1,541	10,769

Notes to the statement of income

1. Cost of revenues

This position contains predominantly purchases of standard software products. Raw materials and external services play a very subordinary role.

2. Sales and marketing expenses

This position contains personnel expenses amounting to KEUR 14,252 (PY: 7,425), other operating expenses amounting to KEUR 14,279 (PY: 12,281) and depreciation amounting to KEUR 833 (PY: 226).

3. General and administrative expenses

This position contains personnel expenses amounting to KEUR 5,884 (PY: 3,182), other operating expenses amounting to KEUR 5,571 (PY: 4,640) and depreciation amounting to KEUR 659 (PY: 860).

4. Research and development expenses

This position contains personnel expenses amounting to KEUR 6,130 (PY: 4,434), other operating expenses amounting to KEUR 2,599 (PY: 1,123) and depreciation amounting to KEUR 351 (PY: 1,784). Depreciation in the past fiscal year applies to fixed assets only, while in the previous year an amount of KEUR 1,681 applied to depreciation of capitalized development costs. In the past fiscal year no development costs were capitalized any more, while in the previous year development costs amounting to KEUR 2,681 had been capitalized. Excluding the effect of capitalization and depreciation of development costs, research and development expenses in the previous year were KEUR 5,660. Adjusted by this effect the increase from 2001 to 2002 is just 60%.

5. Other operating income

Other operating income contains returns from private use of cars and telephones in the amount of KEUR 588 (PY: 330), rents received of KEUR 698 (PY: 210) and other income amounting to KEUR 711 (PY: 709)

6. Interest income and expense

This position includes interest income amounting to KEUR 102 (PY: 320) and interest expenses of KEUR 2,211 (PY: 2,190).

7. Depreciation on financial assets

This position contains an extraordinary depreciation on the purchase price of the shareholding in YELLO! AG amounting to KEUR 1,170 (PY: Depreciation on the purchase price of RCT GmbH in the amount of KEUR 750).

8. Other income / expenses

This position mainly contains the impairment of capitalized development costs amounting to KEUR 4,496 as well as restructuring costs and provisions amounting to KEUR 1,855.

9. Taxes

This item encompasses tax payments of KEUR 684 (PY: 1,265), a surplus amounting to KEUR 2,790 (PY: 276) from further development and revaluation of tax assets in accordance with IAS 12, as well as a surplus of KEUR 1,663 (PY: 276) from removing deferred taxes which had been booked for capitalized development costs.

The difference between the tax credit resulting from the notional application of the German tax rate of 37% (corporation tax, 'Solidaritaetszuschlag' and 'Gewerbesteuer') amounting to KEUR 4,706 and the tax credit resulting from the total of the underlying individual financial statements amounting to KEUR 3,769 or 30%, relates to the non tax-effective goodwill and shareholding impairments and differing foreign taxes due to differing tax rates and profit distribution at subsidiaries.

In the past financial year, deferred taxes on the assets side of the balance sheet amounting to KEUR 3,562 (PY: 1,814) were created on loss-carryforwards, KEUR 1,523 (PY: 1,808) of which was capitalized without impacting profits in the context of the first-time consolidation of subsidiaries.

The position “Other taxes” comprises taxes independent of income arising in the mother company and the French subsidiary.

10. Net loss from discontinued operation

This position applies to discontined operation of RCT Research GmbH and comprises the following items:

Revenue	KEUR	839
Total expenses	KEUR	-2,669
Pretax result	KEUR	-1,830
Tax gain from discontinued operation	KEUR	+1,062
Provision for liquidation costs	KEUR	-355
Impairment of goodwill	KEUR	-3,513
Deconsolidation effect	KEUR	-458
Net loss total	KEUR	-5,094

RCT GmbH is a developer of automization solutions for the shoe industry. M+M had taken over control as of Dec 31, 2001, targeting the achievement of break even for 2002. Due to the investment restraint in the shoe industry which became increasingly evident during the second half of the year, this target was clearly missed. The continuing difficult market situation gave no positive perspective, so the management and advisory board decided on Feb 27, 2003 to restrain from fueling further cash and to write off the RCT investment to zero. The management of RCT has filed a petition in insolvency the same day.

The provision for liquidation costs amounting to KEUR 355 takes into account all identifiable costs and risks that may occur to Mensch und Maschine Software AG as RCT shareholder from the insolvency.

11. Calculation of shares outstanding and earnings per share

In accordance with IAS 33 a weighted average was calculated for shares outstanding. The diluted number of shares does not only include 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.

	2002	**2001**
Net income/loss KEUR	-14,296	2,346
Weighted number of shares	5,041,903	4,438,445
Non diluted earnings per share EUR	-2.8354	0.5286
Number of executable Options	184.450	143.050
Diluted number of shares	5,226,353	4,581,495
Diluted earnings per share EUR	-2.7354	0.5121

Schedule of movement of non current assets (IAS)

	Acquisition costs				Accumulated depreciation				Net book value	
	01.01.02	Addition	Disposal	31.12.02	01.01.02	Addition	Disposal	31.12.02	31.12.02	31.12.01
I. Tangible assets	**6,371**	**3,273**	**-959**	**8,685**	**4,003**	**1,202**	**-716**	**4,489**	**4,196**	**2,368**
II. Intangible assets	**11,039**	**1,094**	**-17**	**12,116**	**5,789**	**5,137**	**0**	**10,926**	**1,190**	**5,250**
1. Developments costs	9,239	0	0	9,239	4,743	4,496	0	9,239	0	4,496
2. Other	1,800	1,094	-17	2,877	1,046	641	0	1,687	1,190	754
III. Goodwill	**18,688**	**14,467**	**-3,513**	**29,642**	**3,096**	**4,887**	**-3,513**	**4,470**	**25,172**	**15,592**
IV. Financial assets	**8,715**	**1,938**	**-4,994**	**5,659**	**0**	**1,170**	**0**	**1,170**	**4,489**	**8,715**
1. Investments	4,458	1,938	-897	5,499	0	1,170	0	1,170	4,329	4,458
2. Loans	4,090	0	-4,090	0	0	0	0	0	0	4,090
3. Other	167	0	-7	160	0	0	0	0	160	167
V. Deferred taxes	**3,349**	**5,688**	**-2,126**	**6,911**	**0**	**0**	**0**	**0**	**6,911**	**3,349**
(all amounts in KEUR)	**48,162**	**26,460**	**-11,609**	**63,013**	**12,888**	**12,396**	**-4,229**	**21,055**	**41,958**	**35,274**

Notes to the balance sheet

Assets

Current assets

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

13. Inventories
This position predominantly contains purchased goods and software licences.

14. Prepaid expenses and other current assets
This position primarily comprises tax credits, loans and creditor receivables from pending reimbursements.

Non-current assets

The development of the non-current assets during fiscal year 2002 is indicated in the schedule of fixed assets movement.

15. Goodwill

The additions amounting to KEUR 14,467 relate to the first-time consolidation of acquisitions and the increase in sharehol-dings in the financial year.
These were shareholding increases at EUKLID Software GmbH and RCT Research GmbH and first-time consolidations at DATAflor AG, Elektro-CAE GmbH (ECS) and AIM GmbH, which had been shown in the previous year under financial assets and where further stakes were purchased, as well as OPEN MIND Technologies AG, which was 100% acquired by means of share swap. The impairment applies to the decon-solidation of RCT Research GmbH.

Individual goodwill development during the year under review was as follows:

Goodwill development

Amounts in KEUR	31.12.2001	Addition	Amortization	Impairment	31.12.2002
M+M Italy	1,292		-88		1,204
M+M Akademie	782		-41		741
M+M Poland	540		-33		507
M+M France	403		-35		368
M+M Austria	99		-9		90
M+M UK	3,342		-180		3,162
M+M Sweden	3,218		-171		3,047
M+M Switzerland	1,413		-74		1,339
EUKLID	1,813	2,212	-201		3,824
RCT Research	2,690	823	0	-3,513	0
DATAflor	0	1,152	-62		1,090
ECS	0	791	-40		751
OPEN MIND	0	8,251	-394		7,857
AIM	0	1,238	-46		1,192
Total	**15,592**	**14,467**	**-1,374**	**-3,513**	**25,172**

16. Investments

Financial assets mainly include strategic shareholdings. All shareholdings are reported at cost of acquisition as the pre-requisites for equity consolidation were not fulfilled mainly due to a lack of substantial influence on the operating business of the participation companies. Additions for the increase in the shareholdings in YELLO! and CTB as well as an additional payment to the purchase price of C-Plan AG shareholding resulting from overperformance in the company's profitability agreed for 2001 are offset by the elimination of DATAflor, ECS and AIM as a result of first-time consolidation as group companies by and an impairment of the shareholding in YELLO! AG.

The following investments existed on December 31, 2002:

Investments on Dec 31, 2002

SOFiSTiK AG, Munich	14.3%
YELLO! AG, Wiesbaden	29.3%
CYCO BV, Netherlands	7.4%
CTB GmbH & Co KG, Buchholz	19.9%
C-Plan AG, Muri, Switzerland	20.0%

Mensch und Maschine AG is concurrently checking shareholdings for signs of depreciation. The maximum loss risk that has to be disclosed according to IAS 32.66 is the amount of the respective book value increased by loans given to shareholdings amounting to KEUR 764 as of Dec 31, 2002.

17. Deferred taxes
This item comprises tax assets, mainly the statement of potential tax savings based on some group companies' tax loss carry forwards.

Liabilities

Current liabilities

18. Short term debt and current portion of long-term debt
This position almost exclusively contains bank loans at M+M's principal banks in Germany and abroad in the context of credit lines extended. Most credit lines are not collateralized. In previous years this position also contained a bank loan which was taken up to finance the acquisitions in England and Sweden during 2000. This loan has a term of 5 years with a half yearly repayment of one tenth. M+M, though, has the right for repayment of any amount, therefore the whole remaining amount had been accounted as short term debt in previous years.
As of Dec 31, 2002, only the amount of KEUR 818 repayable during 2003 is accounted as short term, the rest as long term debt (Position 21).

19. Accrued expenses
Accruals are calculated taking into account all identifiable risks and always represent the expected payment amount.
They mainly include accruals for personnel and restructuring accruals.

20. Other current liabilities

This position mainly includes debts from sales and wages, outstanding social security costs and deferred income.

Non-current liabilities

21. Long term debt, less current portion

This position contains the long term part of a bank loan taken up to finance the acquisitions in England and Sweden during 2000 amounting to KEUR 4,090. It is collateralized by pledging stakes in the subsidiaries in England and Sweden.
Futhermore, this position contains mortgage loans secured by property charges for the company buildings of ECS and DATAflor amounting to KEUR 1,488.

22. Pension accruals

Pension accruals mainly exist at the parent company and relate to a performance-oriented plan for the Board of Management of the company. The provision commitment includes company pension, support for surviving dependents in the event of death and a disability pension. The pension accruals are determined according to actuarial principles of the current projected unit credit method in accordance with IAS 19. The discounting rate applied is to 5.5% and the expected salary increase is 2% per year.

The pension accruals as at the balance sheet date amount to KEUR 297 (PY: 294), of which an amount of KEUR 284 represents the determined cash value of the performance-oriented obligation not financed via a fund. The cash value determined as at the balance sheet date of the performance-oriented obligations financed via a fund amounts to KEUR 1.375. This figure also corresponds to the fair value of the plan assets as at the balance sheet date. The balance of actuarial profits and losses not yet included as at the balance sheet date amounts to non-reported profit of KEUR 842. The time of service expenditure to be calculated retrospectively and not yet reported in the balance sheet in the amounts to KEUR 0.

The Statement of Income includes income from plan assets amounting to KEUR 985, interest expenses of KEUR 87 and current time of service expenditure of KEUR 59.
The stated expenses and income are included in the general and administrative expenses.

Development of accruals

The development of accruals during the past fiscal year can be seen from the table of accrual development.
No material amounts of unused accruals from previous fiscal year are included in the column disposal.

The restructuring accruals were created for EUKLID GmbH, RCT GmbH and the french Man and Machine S.a.r.l. and apply to the restructurings planned for the first half of 2003 from the cost cutting programme (M+M France), the use of synergy effects (EUKLID) and for liquidation costs (RCT).

Table of accrual development

Amounts in KEUR	31.12.2001	Disposal	Addition	31.12.2002
Personnel accruals	785	-785	1,445	1,445
Restructuring accruals	1,024	-1,024	1,085	1,085
Outstanding bills	171	-171	363	363
Other	519	-519	735	735
Total current accruals	**2,499**	**-2,499**	**3,628**	**3,628**
Personnel accruals	135	0	42	177
Other	2	-2	0	0
Total non-current accruals	**137**	**-2**	**42**	**177**
Total accruals	**2,636**	**-2,501**	**3,670**	**3,805**

Shareholders' equity

23. Share capital

The subscribed capital of Mensch und Maschine Software AG on Dec 31, 2002 comprised 5,041,903 no-par shares (Stueckaktien / PY: 4,440,545).

24. Additional paid-in capital

The capital reserve item primarily comprises the premiums from the 1996 to 1998 capital increases as well as premiums from options exercised amounting to KEUR 17,873 and additions from the contributions in kind of the acquisitions in Sweden (2000), Switzerland (2001) and OPEN MIND AG (2002) amounting to KEUR 8,640.

Notes to the cash flow statement

25. Other information on operating activities

According to IAS 7.31 and 7.35, the following information on operating activities has to be disclosed: the total scope of interest settled in cash was KEUR 2,211 (PY: 2,190), interest received in cash was KEUR 102 (PY: 320). In addition, income taxes of KEUR 1,037 (PY: 1,699) were settled in cash.

Other supplementary information

Other financial obligations and contingent liabilities

Other financial obligations resulting from rental and leasing contracts for the group as a whole total KEUR 8,226 through the end of the year 2006. Material leasing contracts mainly apply to the mother company regarding the headquarters' building, SAP software and the company cars.
Additionally, there is a contingent liability as of April 1, 2007, from the OPEN MIND AG acquisition described above in the position "company acquisitions".

Employees

The group's average number of employees during the fiscal year was 467 (PY: 298).

Management board

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

Adi Drotleff, Diplom-Informatiker, Schondorf (CEO)
Peter Baldauf, Diplom-Ingenieur (FH), Wessling (Sales)
Michael Endres, Diplom-Informatiker (FH), Fuerstenfeldbruck (Marketing)
Jens Jansen, Diplom-Ingenieur, MBA, Munich (CIO)
Peter Schuetzenberger, Kaufmann, Hagenheim (CFO)
Werner Schwenkert, Diplom-Kaufmann, Munich (CTO)
from May 1, 2002

Advisory board

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

Friedrich Soldner, Diplom-Kaufmann, Retired tax consultant, Munich
Chairman
Theodor Beisch, Entrepreneur, Aachen
Vice-Chairman until May 13, 2002
Anton Sommer, Managing Director of Sommer Equity Consulting GmbH, Waltenhofen
Member until May 12, 2002
Vice-Chairman from May 13, 2002
Thomas Becker, Diplom-Kaufmann, Managing Director of ASTA GmbH, Neuss
Member from May 13, 2002

Remuneration of board members

Remuneration for the management board amounted to KEUR 706 (PY: 689), of which an amount of KEUR 0 (PY: 61) was variable. Excluding the new board member Werner Schwenkert remuneration amounted to KEUR 638. Additionally the members got non cash remuneration (e.g. company cars, pension commitments, life insurances) amounting to KEUR 151 (PY 134).
The management board was granted share options during the period covered by the present report to a total value of KEUR 66 (PY: 55). The Black Scholes model was applied in assessing the fair value of the options.

The splitting up of the remuneration among the management board members is shown in the following table (amounts in KEUR):

Remuneration of management board members FY 2002

in KEUR	fixed	variable	non cash	Options
Adi Drotleff	195	0	70	12
Peter Baldauf	110	0	16	12
Michael Endres	107	0	15	12
Peter Schuetzenberger	119	0	16	12
Jens Jansen	107	0	18	12
Werner Schwenkert	68	0	16	6

Remuneration for the advisory board totaled KEUR 20 (PY: 20). This was split up into KEUR 10 for the Chairman and KEUR 5 each for the other members.

Directors' shareholdings and options

On Dec 31, 2002, the members of the management board owned 3,245,094 shares (Dec 31, 2001: 2,823,688) and 52,200 options (Dec 31, 2001: 32,400) in Mensch und Maschine Software AG.
Stock ownership of the members of the advisory board as of Dec 31, 2002, was 1,700 shares (Dec 31, 2001: 1,700), option ownership of the members of the advisory board was 3,200 (Dec 31, 2001: 8,000).

Stock and option ownership of individual members of the boards as per Dec 31, 2002 can be seen from the following table:

Directors' holdings Dec 31, 2002

Management Board	Shares	Options
Adi Drotleff	2,787,900	9,200
Peter Baldauf	10,222	12,200
Michael Endres	12,000	11,000
Peter Schuetzenberger	15,000	11,000
Jens Jansen	9,972	7,000
Werner Schwenkert	410,000	1,800
Supervisory Board		
Friedrich Soldner	1,200	3,200
Anton Sommer	500	0
Thomas Becker	0	0

Other advisory board memberships of M+M board members

On December 31, 2002, Mr. Sommer also served as chairman of the advisory board for Saechsisches Druck- und Verlagshaus AG, Dresden, and further was a member of the advisory board for Trustit AG, Munich.

On December 31, 2002, Mr. Becker also served as a member of the advisory board for DATAflor AG, Goettingen, and for DEURAG Deutsche Rechtsschutz-Versicherung AG, Wiesbaden.

On December 31, 2002, Mr. Drotleff also served as chairman of the advisory board of DATAflor AG, Goettingen, and further was a member of the advisory board for SOFiSTiK AG, Munich.

On December 31, 2002, Mr. Baldauf was also a member of the advisory board of YELLO! AG, Wiesbaden and of Verwaltungsrat of C-Plan AG, Muri, Switzerland.

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

Declaration in accordance to §161 AktG (German Corporate Governance Codex)

The company has published for 2003 the declaration required in accordance to §161 AktG and made it accessible to its shareholders via the internet (www.mum.de).

Release date for publishing

The consolidated financial statement of Mensch und Maschine AG was released for publishing on March 31, 2003. Publishing was approved by the advisory board.
The date of publishing was March 31, 2003.

Auditors’ report

"We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity 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, 2002. 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).

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, 2002, 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, 2002 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."

Munich, March 31, 2003

Ernst & Young
Deutsche Allgemeine Treuhand AG
Wirtschaftspruefungsgesellschaft

Stangner
German Public Auditor

Zapf
German Public Auditor

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CAD in practice: Mechanical Engineering for Ecology

Project: Stingray Tidal Stream Generator

Customer: The Engineering Business Ltd, England

Development of this 150KW tidal power generator was done directly in 3D on screen using Autodesk Inventor.
This enabled the engineers to achieve the tight roadmap for this ambitious project, which is using the tidal energy resources largely available around the British Isles.
Unlike offshore wind energy farms, the Stingray is neither acoustically nor optically polluting the environment due to its placement below the water surface.