mensch maschine

CAD as CAD can

Annual Report 2003

Mensch und Maschine at a glance

All amounts in million EUR (unless stated otherwise)	1997		1998		1999		2000		2001		2002		2003	
Revenue	50.7		84.5	+67%	103.3	+22%	115.8	+12%	146.8	+27%	143.1	-3%	131.0	-8.5%
Germany	38.0	75%	48,6	58%	50.0	48%	50.3	43%	56.6	39%	55.1	38%	48.1	37%
International	12.7	25%	35,9	42%	53.3	52%	65.5	57%	90.2	61%	88.1	62%	82.9	63%
Revenue per share in EUR	13.34		20.11	+51%	24.08	+20%	26.65	+11%	33.08	+24%	28.38	-14%	25.61	-10%
Gross Margin	15.8		20.3	+28%	27.9	+37%	31.0	+11%	40.0	+29%	47.2	+18%	42.5	-10%
Trading products							25.2	81%	31.6	79%	25.1	53%	21.2	50%
M+M Technology + Services							5.8	19%	8.5	21%	22.1	47%	21.3	50%
Gross Margin per share in EUR	4.16		4.83	+16%	6.51	+36%	7.13	+11%	9.01	+23%	9.36	+4%	8.30	-11%
Operating result EBIT	3.1		2.6	-15%	2.7	+2%	4.0	+50%	6.2	+59%	-2.7 *		-4.2 *	
EBIT return from revenue	6.1%		3.1%		2.6%		3.5%		4.2%		-1.9%		-3.2%	
Net result	1.3		1,8	+31%	1.3	-24%	1.6	+17%	2.3	+50%	-14.3		-6.3	
Net return from revenue	2.6%		2.1%		1.3%		1.3%		1.6%		-10.0%		-4.8%	
Net result per share in EUR	0.35		0.42		0.31		0.37		0.53		-2.84		-1.23	
Dividend in EUR	0.13		0.18	+40%	0.23	+29%	0.28	+22%	0.35	+25%	0.00		0.00	
Total assets	23.3		45.3	+94%	62.0	+37%	80.8	+30%	89.2	+10%	83.2	-7%	80.1	-4%
Shareholders' equity	9.9		23.5	+138%	23.9	+2%	24.9	+4%	27.8	+11%	17.8	-36%	14.8	-17%
Equity ratio	42.3%		51.8%		38.6%		30.8%		31.1%		21.3%		18.5%	
Number of shares in million	3.800		4.202	+11%	4.289	+2%	4.346	+1%	4.438	+2%	5.042	+14%	5.116	+1%
Number of employees	96		141	+47%	214	+52%	228	+7%	298	+31%	467	+57%	405	-13%
thereof M+M AG	75	78%	87	62%	95	44%	98	43%	88	29%	89	19%	89	22%
International subsidiaries	21	22%	54	38%	97	45%	104	46%	136	46%	141	30%	120	30%
Technology subsidiaries	0	0%	0	0%	22	10%	26	11%	74	25%	237	51%	196	48%

* before restructuring

man machine
CAD as CAD can

Contents

The M+M management board,
in clockwise order from behind:
Michael Endres (Marketing)
Peter Schuetzenberger (CFO)
Jens Jansen (CIO)
Peter Baldauf (Sales)
Werner Schwenkert (CTO)
Adi Drotleff (CEO)

Dear reader,
When Mensch und Maschine celebrates its 20th anniversary in summer 2004, we look back on impressive progress.

During the first ten years, M+M evolved from a one-man show to one of the leaders in the German CAD market, employing some 50 people and turning over more than Euro 25 million. In addition, we had played an important part in taking computer aided drafting and design from the ivory tower of mainframes to the PC, making CAD affordable for everyone.

The second M+M decade was characterized by European expansion, the IPO in 1997, as one of the pioneers of “Neuer Markt”, and the Technology Offensive, which mainly in the last three years has helped to balance the business model across the “Value-Added Distribution” and “M+M Technology” segments.

This development was accompanied by enormous sales and headcount growth rates. It also consumed a high degree of management and investments.

Taking this into account, the consolidation seen during the past two years was an urgently needed pause for the M+M group to strengthen the corporate mass and market position.

In spite of the 10 percent decrease over the last two years, sales have increased at an annual rate of 17 percent during the six year period since the IPO - for gross margin, the annual growth rate was even higher and amounted to 18 percent.

In absolute numbers, sales and gross margin nearly tripled since 1997. On the other hand, the number of shares increased by just more than one third in the same period, nearly doubling sales and gross margin per share - an indication for the inner value growth of the M+M share.

As opposed to this, the outer value of the share since IPO - after a steep increase during the general bull market - was heavily under pressure, in parallel with the decline of the stock market, after the turn of the millenium and reached a historical low at the beginning of 2003 quoted at just one quarter of the issuing price at IPO.

Since then, the M+M share has significantly gained value, but at the end of March 2004, was quoted around 25% below the issuing price of 1997.

So the challenge for the M+M management for the year to come will be to get the share price in line with the development of its inner value.

The prerequisites have been set by the successful development of the business model towards the three pillar strategy and by lowering break even through consequent beneficial synergy of the segments and strict expense management.

In 2004 we aim for a cautious growth path and to return to black numbers after more than halving the net loss in 2003.

The number one target along with this is to optimize the structure of the balance sheet which still shows too high bank debt, even after performing a 16% reduction in debt since the highest level reached at end of September 2002. In the immediate future the level of investments needed will stay low, allowing operating cashflow to be mainly used for paying back bank debt.

The recovery of the CAD market during second half of 2003 with significantly accelerating order intake, makes us optimistic to be able to achieve the set targets and guide M+M back to previous levels of profitability quite soon.

Wessling, March 29, 2004
The Board of Management

2003 at a glance

- Revenue EUR 131 mln (-8.5%)
  - Order intake significantly higher
  - International share 63% (PY 62%)
  - Annual growth rate 1997-2003: 17%
- Gross margin EUR 42.5 mln (-10%)
  - Annual growth rate 1997-2003: 18%
- Net result EUR -6.3 mln (PY -14.3)
  - Several special effects causing positive result carry over to 2004
- Capital increase by 9% at Nov 13, 2003
  - Net cash injection EUR 3.3 mln
  - Bank debt reduced similarly
- Three pillar strategy executed
  - M+M Technologies achieved 50% gross margin share
  - PTC distribution successfully started: gross margin share already 10%
  - Autodesk gross margin share down to 40%: dependence lowered significantly
- Expense base reduced significantly
  - Headcount down to 370
  - Restructuring costs accrued

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 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 two years mainly by a strong growth push in the business unit “M+M Technologies and Services” and by starting sales of a second standard CAD software from vendor PTC.

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 years saw a multiplication of international business which in fiscal year 2003 amounted to EUR 82.9 mln or 63% of total group sales.

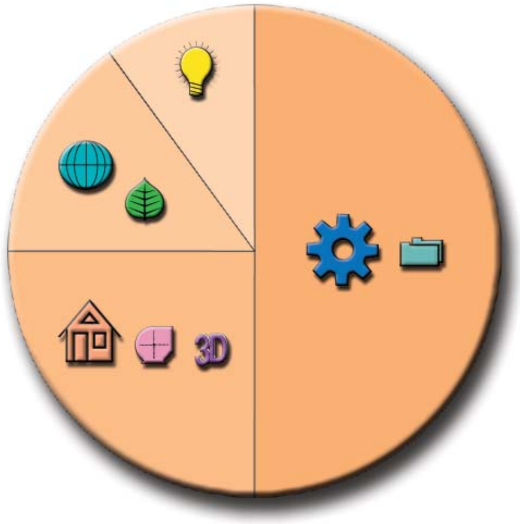
This development was driven by acquisitions in France, Italy, Poland (all 1998), England, Sweden (2000) and Switzerland (2001) as well as by the foundation of a new subsidiary in Belgium (2002) which today gives M+M market access to 15 European countries. Additionally, there are sales offices in the USA, Japan and Singapore, exclusively marketing M+M Technology.

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 attributed 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, mainly 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 400,000 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.

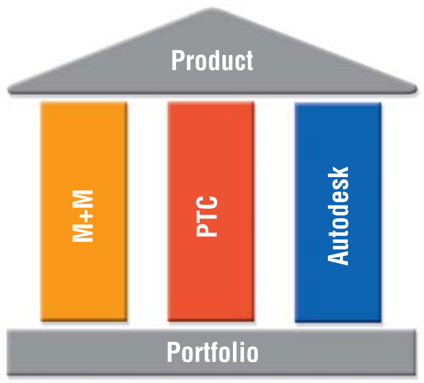
3. Product portfolio
The M+M product portfolio covers a wide price/performance range from simple drawing software costing a few hundred Euros through midprice 2D/3D design solutions in the four-digit Euro range up to high end systems for manufacturing and production control with software investment costs from 10,000 to 100,000 Euros and more per seat.

Until 1999, only about 10% of the group gross margin was achieved with M+M Technologies and Services, while the VAD business unit was clearly dominant and marked a relatively strong dependence upon main supplier Autodesk.

The M+M Technology gross margin share grew significantly during the last few years and amounted to EUR 21.2 mln or 50% of group gross margin in fiscal year 2003.
Thus the M+M business model is now balanced across the product portfolio between owned and trading products.
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, an equal balance across the product portfolio on two pillars was achieved.
Based on this, the M+M business model is 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), also has a leading position with mechanical CAD software. In spring 2003, PTC released the new product line, Pro/ENGINEER Wildfire™, which M+M from March 1, 2003 took over the Value-Added Distribution, now in 15 European countries.

In the first year of distribution, more than 100 authorized resellers for Wildfire were contracted accross Europe, and a 10% contribution to M+M group gross margin was achieved.



Three pillar strategy for product portfolio: After evenly balancing the business 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.

As expected:
Little competition between Autodesk and PTC

Introducing a second supplier in no way meant that M+M was turning away from Autodesk its long term primary supplier, whose products continue to play a key role in M+M's portfolio. Autodesk remains an important partner of M+M, particularly in the areas of architecture/construction, geography, and electrical as well as mechanical engineering. As expected, there is very little direct competition between Autodesk and PTC software, because firstly both portfolios just overlap in the mid price range and in the 3D mechanical sector, and secondly because the largest part of the business today is achieved with existing customers or in the environment of the installed base, e.g. with the supply industry, meaning that most prospects have a natural preference for one or the other technology.

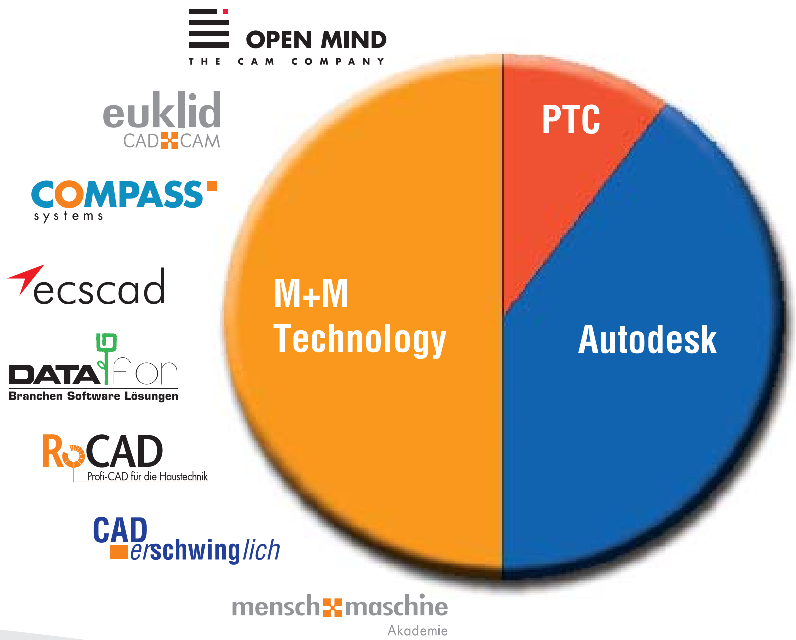
Dependence on Autodesk reduced …

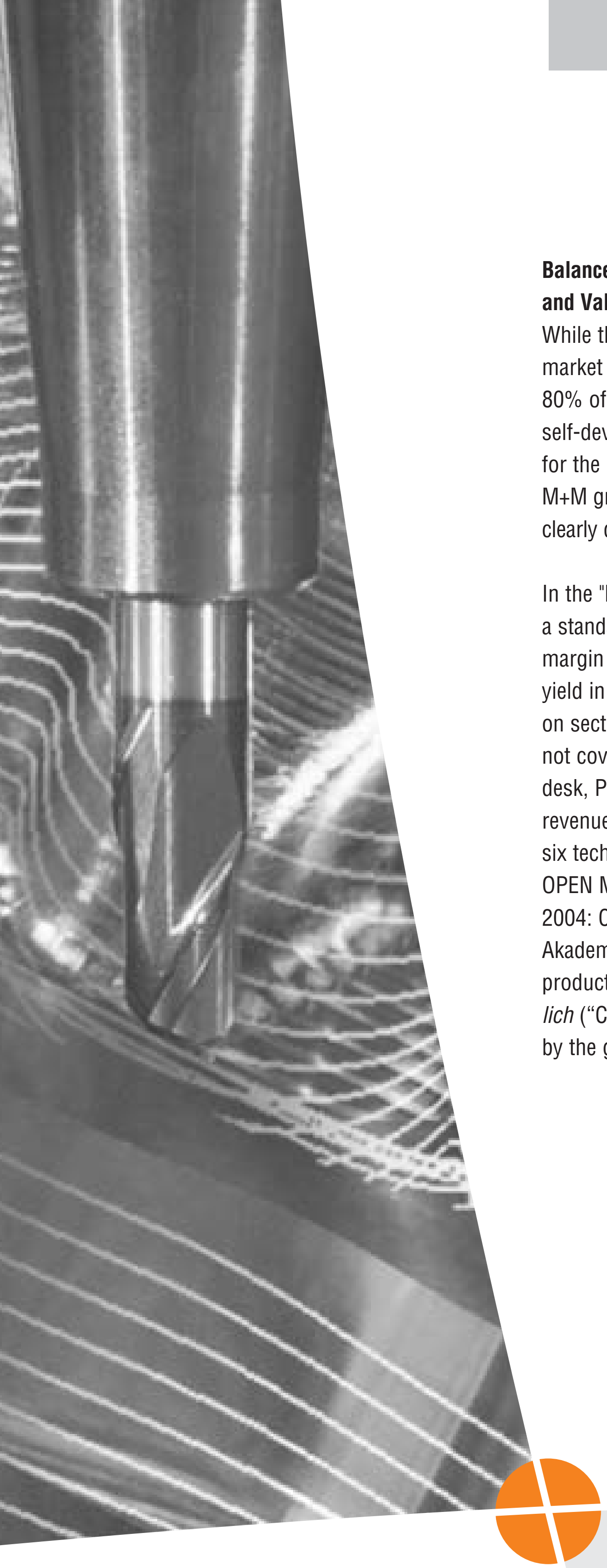
With gross margin share down to 40% in fiscal year 2003, previously existing one-sided dependence on Autodesk was reduced significantly.

… but still high M+M market share

In spite of this, M+M again held nearly one third of the Autodesk business in Europe with a 2003 purchase volume around EUR 70 mln.

Half of the 2003 gross margin was achieved with M+M group's own brands. The new PTC segment has already contributed 10%, while the Autodesk share was reduced to 40% as planned. Thus the M+M business model could already be balanced quite well across the three pillars.





Balance between Software Development and Value-Added Distribution

While the VAD segment gives M+M broad market access and contributes more than 80% of revenue (2003: EUR 106 mln), the self-developed technologies are responsible for the differenciation potential and give the M+M group an individual market profile to be clearly distinguishable from its competition.

In the "M+M Technology" segment, M+M is a standard software developer with a gross margin yield of 85% (compared to 20% yield in the VAD segment) and concentrates on sector and niche applications which are not covered by the large vendors like Autodesk, PTC or Dassault. 90% of the group revenue in this segment is generated by the six technology and service subsidiaries OPEN MIND, EUKLID, AIM (since March 1, 2004: COMPASS), ECS, DATAflor and M+M Akademie, the remainder comes from the product brands RoCAD and CAD*erschwinglich* ("CAD affordable") which are developed by the group mother company, MuM AG.

The M+M product brands

The individual technology subsidiaries and M+M group product brands are introduced as follows.

OPEN MIND Technologies AG

Group member since Q1/2002 (Acquisition)

EUKLID Software GmbH

Group member since Q2/2001 (majority takeover), since 2000 minority shareholding

OPEN MIND and EUKLID are both specialized on 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.

Especially 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.

With the patented "tube milling process", hyperMILL enables the fully automatic milling of induction ports with very short cutters which are much more stable.
With this method, the manufacturing time for a cylinder head can be drastically reduced. This solution is already in use by several Formula 1 race teams.

Another highly complex application is the milling of impellers, where the programming and manufacturing time is reduced significantly by new algorithms. This helped OPEN MIND to close a cooperation and sales agreement in 2003 with a renowned precision machine tool manufacturer, fully relying on hyperMILL for CAM in the future.

The second product line hyperFACT is used in production control. In this field, several projects could be won with important automotive manufacturers which are assisted by hyperFACT to achieve high productivity gains in motor manufacturing.

The M+M CAM solutions are not only sold in Europe, but also, through subsidiaries, in the USA, Asia/Pacific and Japan. With sales of more than EUR 13 mln from OPEN MIND and EUKLID, the M+M group belongs to the first tier of vendors in the important niche market of CAM solutions.

AIM Systems GmbH
(since Mar 1, 2004: COMPASS Systems GmbH)
Group member since Q2/2002 (majority takeover), since 1999 minority shareholding

With nearly 20,000 installations for the COMPASS product line, AIM holds a strong position for PDM/PLM solutions, mainly in the German speaking area, but increasingly in other countries of Europe.

PDM/PLM means Product Data/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 monitored and allowing fast project development.

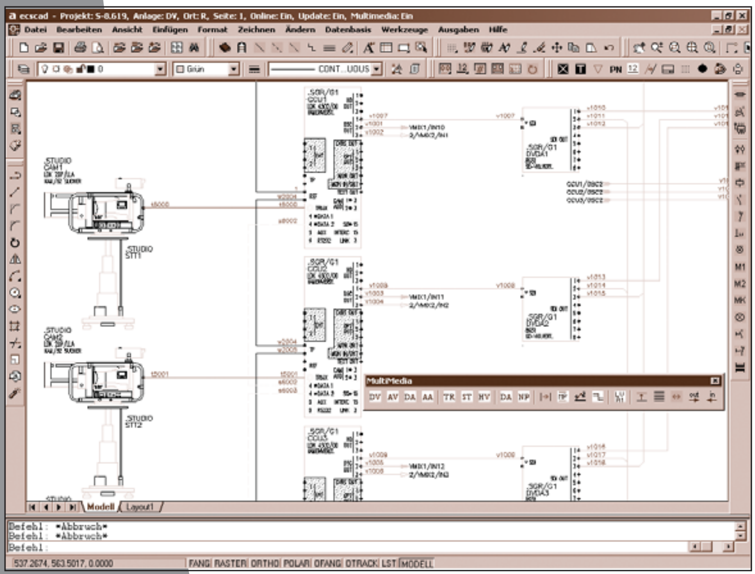
After an investment phase of several years, in 2003 the breakthrough was achieved for COMPASS. With more than 50% sales increase to nearly EUR 3 mln, COMPASS is one of the most important components for the future of M+M Technology.

While in the past, small to mid size installations were dominant, now more and more larger customers and installations are being won. E.g. Ruhrgas group member LOI Thermprocess, Essen, uses COMPASS on 90 seats in the construction of large oven plants for standardizing their products, to lower development time and purchase prices of externally sourced standard parts.

In cooperation with Microsoft and other initiators, COMPASS recently introduced the ‘PDM productive’ competition to support innovation in medium size companies.

Elektro-CAE Software GmbH (ECS)
Group member since Q1/2002 (majority takeover), since 1998 minority shareholding

ECS is the developer of ecscad, a 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 a thousand or more diagrams which are interlinked 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.



Application example Electrical Engineering:
Video/audio plan using ecscad

ECS solutions are not only marketed in Europe but are also sold in the USA and in Asia through local distribution and OEM partnerships under the product names Promis-e and RS-Wire.

About 20,000 installations of ecscad and its sister brands are installed in all areas of the mechanical and electrical industry. To address even more customers in the future, new modules are constantly being developed, e.g. for the special requirements of TV studios or the energy supply industry.

DATAflor Software AG
Group member since Q1/02 (majority takeover), since 1999 minority shareholding

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

This enabled DATAflor in 2003 to hold nearly stable sales in spite of difficult market economies and heavy price pressure from competition. They even enhanced their already high market share in this niche market. DATAflor’s market position in gardening and landscaping was visible at EXPO 2000 in Hannover, where many of the outside exhibition areas had been planned with aid of the software solutions from DATAflor.

RoCAD for building services

The building service solution RoCAD, developed by the mother company M+M AG, holds an important market position in the Autodesk environment, mainly in the German speaking area with about 1,800 installations. RoCAD supplies 2D and 3D solutions for the design and construction of heating, air conditioning, plumbing and electricity.
As an example, the building service facilities for the new “Pinakothek der Moderne” art gallery in Munich were designed using RoCAD. Similar to ecscad, the scope of use and customer group potential is constantly extended by development of special modules, e.g. for the calculation of energy and heating requirements.

CAD*erschwinglich* product lines

The CAD*erschwinglich* (CAD affordable) low price product lines have a long inhouse tradition at M+M.

Symbols and parts libraries

From 1988 onwards, M+M developed symbols and parts libraries, also called “electronic stencils”, offering the CAD user lots of standard parts and symbols for very little money. Currently, the collection includes 26,000 symbols and parts, being edited in 11 library packages, which cover a broad sector bandwidth and are used for illustration of documents of any kind, not only in CAD systems but also in Microsoft Office.
At a list price of 50 Euros (+VAT) and more than 150,000 copies sold, the libraries are the lowest cost, as well as the highest volume, products made by M+M.

AutoCAD*menu* and ADT series

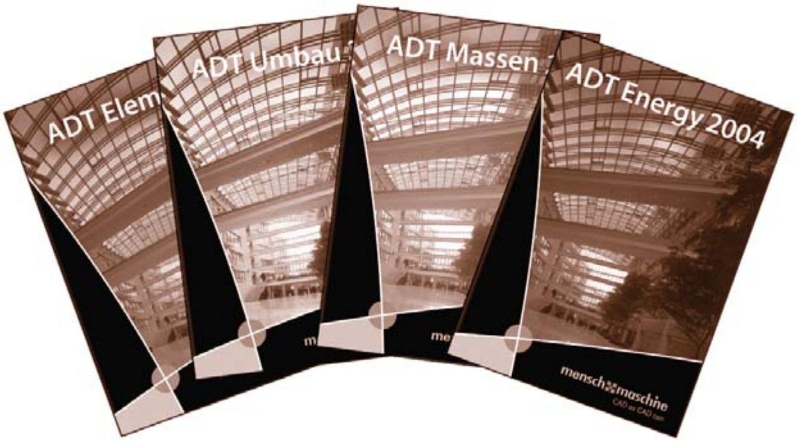
Priced above the libraries, there are two other CAD*erschwinglich* product lines.
With AutoCAD*menu,* M+M offers low cost user interfaces and applications for 150 to 300 Euros (+VAT), making the daily drafting work easier for mechanical or architectural users as well being compatible with the M+M symbols and parts libraries.

Last but not least, the latest “ADT” product series, consisting of *Elements*, *Umbau*, *Massen* and *Energy,* offers the user of Autodesk Architectural Desktop (ADT) supplementary tools for 250 to 390 Euros (+VAT) each.
Elements is a collection of more than 10,000 2D and 3D architectural elements plus approx. 1,000 materials, surface styles and hatching patterns. *Umbau* supports the user particularly for restructuring and renovation projects, while *Massen* and *Energy* are supporting the mass calculation for the estimation and bidding process and the room catalogue and the heat requirement calculation for buildings, respectively.

Mensch und Maschine Akademie GmbH

Group member since 1999 (majority takeover), since 1998 minority shareholding

M+M Akademie is the only pure service subsidiary in the group concentrating on the areas of training and customer-specific software applications. In a way, it is the training and tuning department of the M+M group. In 2003, software projects for important customers like Bosch Rexroth, Johnson Controls and Siemens were executed and approximately 2,000 people were trained.



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 14.3%).
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 under the brand name Topobase complete solutions for local governments and is successfully selling them in Switzerland and Germany, as well as increasingly in other European countries. Sales cooperations with M+M in various countries, e.g. Germany, Austria, France, Italy and Sweden are increasing the power of C-Plan in the European market.

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.

Large target market CAD software and service
The worldwide market for CAD software and service has an annual sales volume of about EUR 10 billion (Sources: Daratech, Dressler-Verlag, own) and is segmented into mechanical engineering, PLM, architectural/construction, geography, electrical engineering, electronic and structural analysis. Except for the latter two, M+M covers all of the segments.

The volume of M+M's main market, Europe, thus is just over 3 bln EUR, meaning that M+M reaches a direct market share of 4-5%. The indirect market share, equal to the revenue volume of the M+M reseller network in the market, is in the range of 10%, because the resellers' sales multiple is estimated to be in the order of magnitude of 2 to 2.5.

M+M: Good positioning in growth areas
Even while the future market growth rate is estimated to be just in the one-digit range, there are good growth chances for the M+M group: Firstly due to the ongoing trend from high-priced, directly sold systems to mid-priced, indirectly distributed systems, a trend for which the M+M business model is well positioned (see for example PTC), secondly through the positioning of M+M in high growth areas likes CAM or PDM/PLM.

Protecting and expanding the market position
Totalling EUR 28.5 mln in 2003, sales and marketing continued to hold the largest share (61%) in group operating expenses. This sum contains personnel expenses amounting to EUR 14.0 mln and other expenses amounting to EUR 13.7 mln, primarily used for advertisements, trade shows and other marketing activities to protect and expand M+M's market position.

Marketing budget concurrently optimized
The marketing area is continuously optimized in order to reach as many potential customers as possible with the funds spent. The trend for trade shows has been to be present at more shows whilst using a lower budget per stand (in 2003 M+M attended 63 shows in 13 countries). As an indirect vendor, M+M is attending trade shows usually partnering suitable resellers. Like all marketing activities offered by M+M, the resellers' trade show expenses are settled via the "PR-Pool", a revenue-driven marketing funds for authorized M+M partners.

M+M Magazine reaching 200,000 customers
Through a carefully maintained address database, the customer newspaper "M+M Magazine" reaches about 200,000 existing and potential customers. In 2003, altogether 19 issues in four languages were published with a total number of 850,000 copies.

High focus on address qualification and CRM
Nothing is more wasteful than trawling through unqualified or duplicated addresses. Therefore the address database is continuously maintained through a web-based CRM system (Customer Relationship Management) and focused use of tele-marketing activities for, as far as possible, actuality of data and compactness. As well, an efficient and timely distribution of prospects' leads within the M+M reseller network is essential - including tough control of the resellers' performance to make sure that requests from end users are answered quickly and to the best standard possible.

Innovative marketing campaigns
The customer does not need products, but solutions - this is the motto for M+M to create ideas that help the resellers to optimally reach potential customers.
A good example for this was the roadshow "Productivity live", during which 500 prospects in 35 events were given evidence of the capabilities of CAD/CAM and PDM/PLM solutions from M+M in the German speaking area.


man machine
CAD as CAD can
Magazine
Nouvelles du monde Autodesk

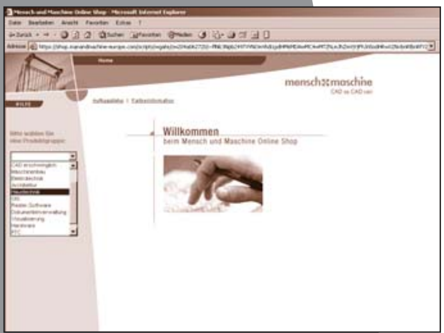

man machine
CAD as CAD can
Magazine
The latest from the world of PTC

High focus on IT and backoffice

A prerequisite for the efficient use of marketing funds, as well as for a well-functioning supply chain, is an optimized IT and backoffice system.

SAP R/3 and integrated CRM system

Since 1997, M+M has used the ERP system SAP R/3, which in the meantime has been introduced in nearly all group companies. Building on this, a web-based CRM system, fully integrated in SAP R/3, was introduced and adapted to the various sales and marketing tasks in the group during the past two years.



More than 60% of orders through web-shop

Along with the growing integration of the individual components, the processes could be optimized. E.g. more than 60% of all orders are coming in electronically through the internet, because customers can use web-shops for comfortable ordering round the clock. There is a closed shop for authorized resellers, fully integrated in SAP R/3, and an open shop for end customers in the low-price sector (CAD*erschwinglich*). Additionally, resellers can lease a shop via "shop hosting" from M+M, enabling them to present their product and service portfolio under their own corporate identity and transfer the appropriate part of the incoming orders to M+M at a fingertip.

Integration with suppliers and customers …

The mid range goal in the IT/backoffice area is the full integration of the supply chain in order to further save processing costs and eliminate error sources. This requires an electronic interface not only on the customer but also on the supplier side, which is planned through an EDI (Electronic Data Interchange) project with the main suppliers Autodesk and PTC. With PTC, the project is already in the pilot phase, while the connection to Autodesk is estimated to work towards end of 2004.

… will drive up electronic order entry quota

For 2005 then, the connection to those larger resellers using inhouse ERP systems is targeted. This will allow the electronic order entry quota to further accelerate towards 100%, opening high cost saving potentials for M+M as well as for customers and suppliers.

R&D expenses: approximately 18 percent

With a total amount of EUR 8.4 mln or around 18% of operating expenses in 2003, research and development again represented a significant cost position in the M+M group. Relative to group revenue, the R&D expenses amounted to 6.4%, relative to M+M technology segment revenue, the factor was as high as 33.7%.

These funds were used by the group mother company and the technology subsidiaries for the maintenance and development of M+M software products. Altogether, the group employed approximately 80 people for development in 2003.

No capitalization of development costs

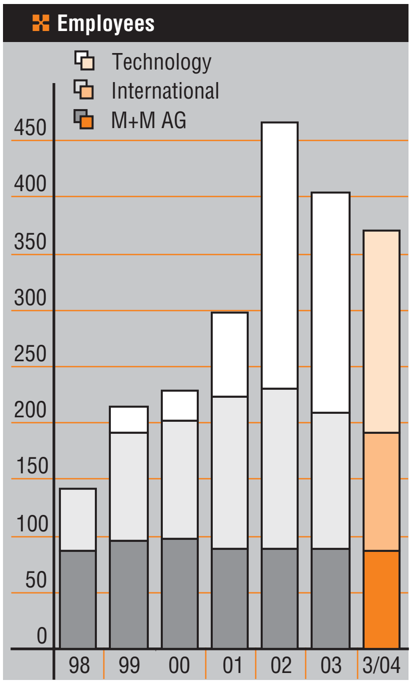
Capitalization of development costs according to IAS 38.45 is not applied by M+M, meaning that the extensive software basis of the group containing hundreds of man years of invested development power represents a hidden reserve.

Employees are co-entrepreneurs

Traditionally, there is a very high focus on good corporate culture at M+M. During the 20 years since foundation of the company in 1984, the employees were always seen as "Co-Entrepreneurs" and fully integrated in the decision making process. Whenever acquiring companies in and outside Germany in the course of the intensive expansion since IPO in 1997, M+M always cared for and respected the specific culture of the companies acquired and encouraged them to adopt M+M corporate culture very gently. The decision making structures in the M+M group are as decentral as possible, the individual entities have a high degree of responsibility in order to achieve the best possible results in the individual markets and to be able to optimally meet the customers' requirements.

Experienced management team

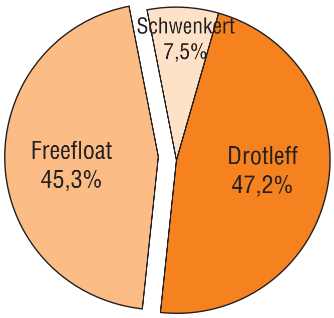
This corporate culture generated a high degree of continuity. Fluctuation in the M+M group is very low, which especially during the hype phase of the IT industry at the end of the 90's prevented a drain of qualified specialists from which other similar companies in IT suffered. As a result, M+M has a very experienced management team down to the second and third management level, with team members mostly looking back on an employment period of more than 10 years.



After the push following the technology offensive, headcount came down, resulting from positive synergy between the segments.

Public and private company

Though M+M shares are listed on the stock market for seven years, the majority of the shares are still in the hands of the management board. Founder and CEO Adi Drotleff holds approximately 2.6 million shares or 47.2% of the 5.5 million shares outstanding at Dec 31, 2003. A package of 410,000 shares is owned by CTO Werner Schwenkert. This was created from the acquisition of OPEN MIND AG by the M+M group and is locked until April 2005.



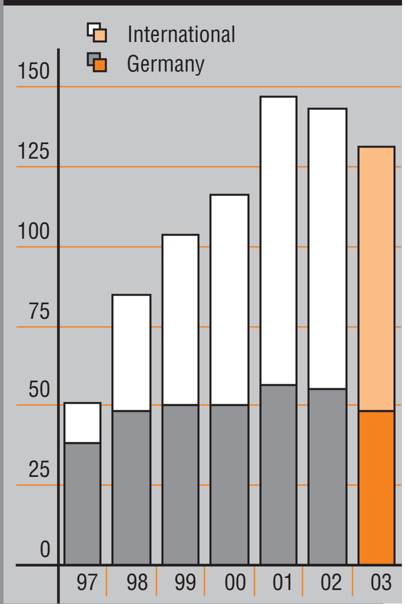
The free float at Dec 31, 2003, contained about 2.5 million shares or 45.3%. A certain part thereof was held in smaller packages by other members of the management board or the next management levels. M+M thus can be seen as a public and a private company in one. This is also documented in the acceptance of responsibility for the company by the share-owning officers: Both are guaranteeing bank credits of the group, Adi Drotleff additionally granted M+M AG an interest-free loan amounting to EUR 1.4 mln in order to strengthen the financial power of the group.

Course of business 2003 and situation of the group

For the M+M group, fiscal year 2003 was a year of consolidation after the rapid growth of the previous years, and it primarily served to execute the three-pillar strategy as well as restructuring and deriving positive synergy benefits after the cost push caused by the technology offensive.

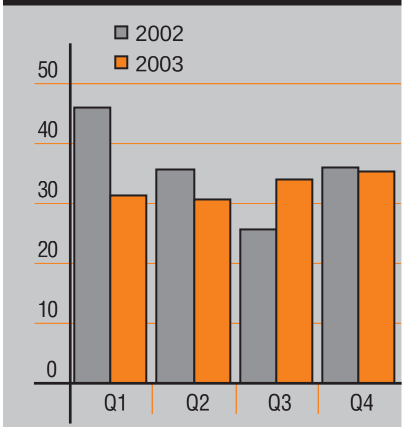
Revenue consolidation after strong growth
Revenues amounting to EUR 131.0 mln (PY: 143.1 / -8.5%) were a good 10% below the peak of EUR 146.8 mln reached in 2001. In spite of this consolidation, the continued annual growth rate (CAGR) in the six years since the floatation in 1997 still averaged a remarkable 17 percent. The international share of revenue amounted to 63% after 62% in the previous year.

Group revenue (in million EUR)



Revenue per share nearly doubled since 1997
The strong revenue development since floatation is also significantly visible on a per share basis: Revenue per share nearly doubled from EUR 13.34 in 1997 to EUR 25.61 in 2003 - an indication of the growth of inner value since floatation.

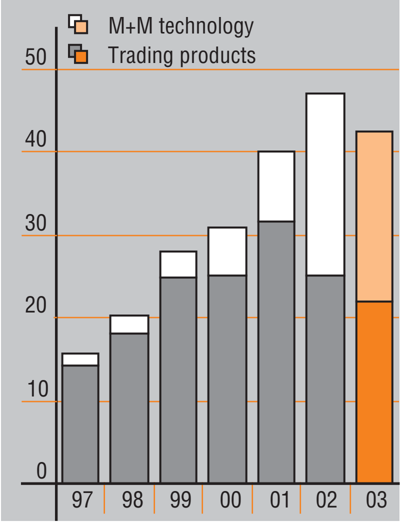
Quarterly revenue (in million EUR)



Untypically flat seasonality of quarterly sales
The seasonality of quarterly sales in 2003 was relatively flat: Fourth quarter sales amounting to EUR 35.3 mln (PY: 35.8) only contributing an untypically low 27% to annual revenue. Also in the previous year, seasonality had not met the normal pattern - with one quarter of sales achieved in Q1, one third in Q4, and Q2 being the slowest quarter with approximately 20% share - but had been nearly exactly mirrored. The base effect from the strong first half year 2002 thus was mainly responsible for the sales decrease on an annual base, while the slow Q3/2002 did not repeat in the following year.

Higher order intake in fourth quarter
In the course of the year, order intake accelerated significantly stronger than sales and indicated a noticeable increase in readiness to invest by the customers. However, due to the odd position of bank holidays, combined with a relatively late peaking of demand shortly before Christmas and a tighter financing environment, the order backlog could not be executed like in other years, and an amount of approximately five million Euro was carried over to the new year.

Gross margin (in million EUR)



Consolidation of growth also for gross margin
At gross margin level, after deduction of purchased goods (VAD) or cost of production (M+M Technology), the reduction against previous year amounting to 10% was slightly higher than at sales level: EUR 42.5 mln were achieved after EUR 47.2 mln in the previous year. In the long term development, only a one year consolidation after five years of rapid growth is visible, CAGR since 1997 amounting to 18% is slightly higher than for revenue. The obtained gross margin per share, which in 1997 amounted to EUR 4.16, has almost exactly doubled within six years - to EUR 8.30 in 2003.

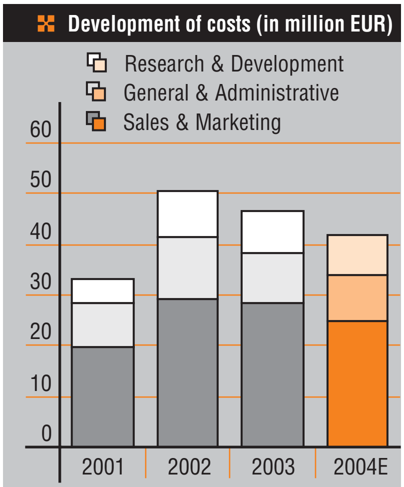
Reduction caused by Autodesk
Resulting from the technology offensive, the gross margin share from M+M technology and services accelerated to the current 50%, after having been as low as 10% until 1999. On the other hand, a strong reduction of gross margin from the segment trading products had to be coped with during the past two years - from EUR 31.6 mln in 2001 to EUR 25.1 mln / -20% in 2002 to EUR 21.3 / -15% in 2003. This development is the flipside of the reduction of dependence on Autodesk: The gross margin generated from this business unit was nearly halved during the past two years.

PTC could not yet fully compensate
From the new PTC business unit, a gross margin amounting to EUR 4.3 mln (PY: 0) was generated, significantly damping but not yet fully compensating for the reduction in the trading products segment compared to the previous year.

Headcount further reduced significantly …
The number of employees, which had jumped from 298 to 467 between 2001 and 2002 in the course of the technology offensive, decreased by 13% to 405 on a 2003 yearly average - here the positive synergy between the technology subsidiaries and with the group mother company was as effective as the additional cost cutting and restructuring programmes, also leading to a significant reduction of headcount in some international subsidiaries.

… to 370 employees at March 31, 2004
In the meantime, the number of employees reduced even further to 387 at Dec 31, 2003, and to only 370 at March 31, 2004, thereof 179 working for technology subsidiaries, 104 in international subsidiaries in the VAD business unit and 87 in the mother company, covering the segment VAD Germany and group holding functions.

Restructuring costs accrued
Altogether, employment was reduced by 114 heads or 24% in two years since April 1, 2002, when after the first time consolidation of all new subsidiaries in the course of the technology offensive, a maximum of 484 employees had been reached.
This restructuring required total expenses of EUR 4.023 mln, split up between 2002 with an amount of EUR 1.855 mln and 2003 with EUR 2.168 mln - thereof EUR 1.734 mln restructuring costs and EUR 0.434 mln restructuring accruals for the headcount reduction during first quarter of 2004.
The 2004 operating expenses thus are already based on a headcount of 370, because the attached restructuring costs have been accrued in the 2003 financial statement.



Operating expenses down 8 percent

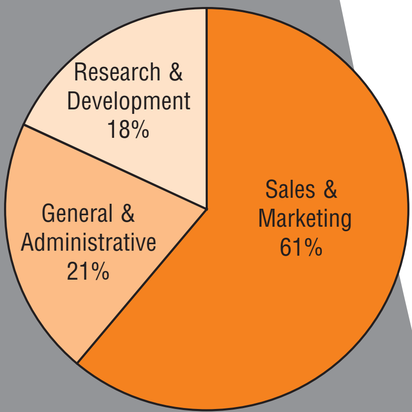
The operating expenses developed approximately in line with headcount. At first, the technology offensive caused a strong cost push with operating expenses including depreciation of fixed assets climbing from EUR 33.3 mln in 2001 to EUR 50.6 mln in 2002. The positive effects of synergy and the restructuring programme caused a reduction by 8% to EUR 46.7 mln in 2003, with G&A expenses dropping most significantly by 20% to EUR 9.7 mln and R&D expenses lowering by 7% to EUR 8.4 mln.

Disproportionate marketing expenses in Q4

Sales and marketing expenses, however, only decreased by 3% to EUR 28.5 mln - in the fourth quarter, approximately EUR 2 mln were invested additionally into the market. The fruits of this investment, though, came back only partly during Q4 through higher order intake and will fully impact revenue and earnings in 2004. On the other hand, the operating expense base in 2004 is estimated to be about 10% below the level of fiscal year 2003, lowering the break-even accordingly.

Operating result still negative

The operating result before interest, amortisation of goodwill, restructuring and taxes in 2003 amounted to EUR -2.9 mln (PY: -1.3). It was negatively impacted not only by the higher marketing expenses in Q4 and the order backlog carried over to the new year, but also by the fact, that OPEN MIND did not book projects with a total amount of around EUR 2 mln in 2003 according to the percentage-of-completion method as initially planned.



The distribution of operating expenses in the M+M group shows a clear dominance of sales and marketing expenses.

Linear amortisation of goodwill still to be applied in IAS/IFRS

Linear amortisation of goodwill amounting to EUR 1.4 mln (PY: 1.4) is still to be applied according to IAS/IFRS as opposed to US-GAAP. After deduction of this amount, the operating result EBIT before interest, taxes and restructuring in 2003 was EUR -4.2 mln (PY: -2.7).

Restructuring costs and accruals

Total restructuring costs and accruals in 2003 amounted to EUR 2.2 mln, as already mentioned. In the previous year, this position contained EUR 1.9 mln restructuring costs and accruals plus EUR 4.5 mln depreciation of formerly capitalized development costs.

The operating result EBIT after restructuring in 2003 amounted to EUR -6.4 Mio (PY: -9.2).

Financial result better than in previous year

The financial result 2003 amounting to EUR -2.8 mln was significantly better than previous year's EUR -3.5 mln. Although interest expenses and currency exchange losses were higher, there was positive impact from a much smaller depreciation of financial assets than in the previous year. Additionally, the income from investments was higher than in the previous year.

The result before taxes 2003 amounted to EUR -9.2 mln after EUR -12.7 mln in 2002.

Net loss more than halved

The net loss after taxes was more than halved compared to the previous year and amounted to EUR 6.3 mln (PY: 14.3). This includes a positive tax effect from netting payed taxes and deferred tax assets amounting to EUR 2.9 mln (PY: 3.5).

Previous year's net loss additionally included a loss from discontinued business amounting to EUR 5.1 mln (writeoff of RCT).

The undiluted net result per share in 2003 amounted to EUR -1.23 (PY: -2.84).

Expansion strategy until 2002 with high investments ...

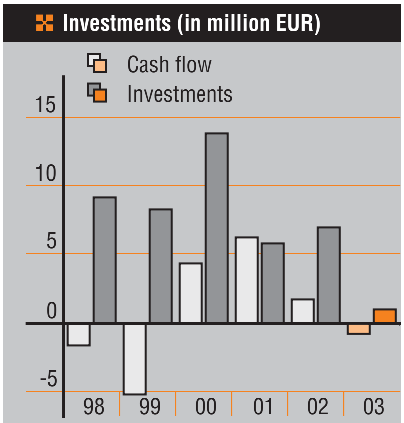
The M+M group has invested heavily in the years since 1998. Investments were made first for international expansion, pushing M+M into the group of leading CAD vendors in Europe, and second in the course of the Technology Offensive, balancing the product portfolio across trading products and M+M technology. 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.

... widely financed using equity and debt

The financing of this expansion was only in 2001 covered by the operating cashflow, in the other years financing was done first by use of equity and from 2000 onwards by use of bank credits available in sufficient volume and at favourable conditions.

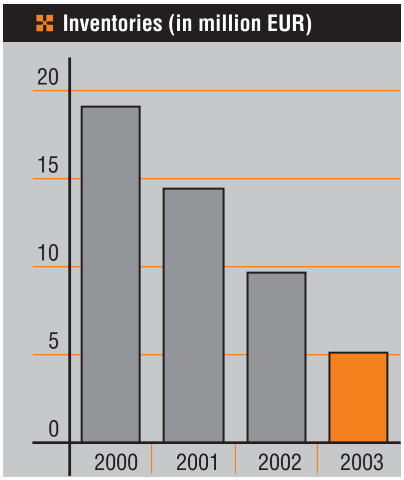
Investments from 2003 strictly reduced

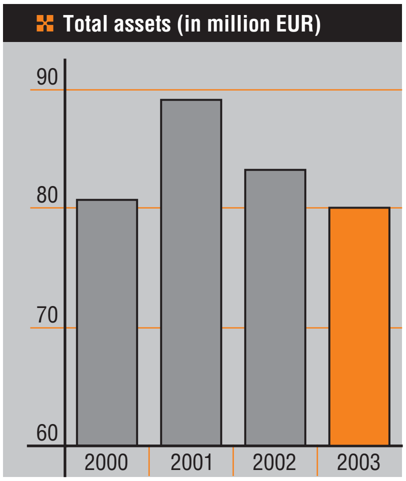
This expansion policy lead to a non optimal balance sheet structure with an excess on the debt side, which is no longer acceptable in times of tighter bank credit offerings. Therefore the investments were strictly reduced beginning 2003 to an amount as low as EUR 0.9 mln. Also for the years to come, there are only investments planned in this order of magnitude, allowing the use of any operating cashflow in excess of this for reducing bank debt.



Sum of assets again decreased

The sum of assets in the group again decreased by 4% to EUR 80.1 mln (PY: 83.2), being even lower than in fiscal year 2000, before starting the technology offensive. The primary driver for this development was a radical reduction of the value bound in inventories. These were driven down since the year 2000, when inventories amounted to EUR 19.1 mln, by nearly five million per year, reaching the historical low of EUR 5.1 mln (PY: 9.6) in 2003.





Lower accounts receivable during the year …

In the course of the year, the sum of assets was even significantly lower than at year end: The lowest amount of EUR 77.0 mln was reached at March 31, 2003.
This was primarily caused by the development of accounts receivable, which could be reduced to a large extent during the year, while at year end this position, amounting to EUR 27.8 mln, was even higher than the previous year's EUR 25.2 mln due to the seasonal effect of relatively late revenue generation and accounting in December.

… corresponding with higher operating cashflow

This "bathtub-effect" of accounts receivable, which is to be expected also during 2004, lead to a reverse effect in operating cashflow, which reached an amount of EUR 4.5 mln at half year end, while at year end it amounted to EUR -0.8 mln.

Net debt already significantly reduced

Net debt, defined as current plus non-current bank debt minus cash, could be reduced as of Dec 31, 2003 to EUR 31.3 mln, being EUR 3.0 mln below previous year's amount of EUR 34.2 mln. Compared with the historical high of EUR 37.2 mln reached at Sep 30, 2002, net debt was reduced by nearly six million Euro or 16%.

The intra-year "bathtub effect" is also visible here: Mid 2003, net debt was lowest at an amount EUR 30.2 mln.

Small capital increase at Nov 13, 2003

The cash injection amounting to EUR 3.3 mln net by the small capital increase performed at Nov 13, 2003, thus resulted in a nearly equal reduction of net debt in the group by EUR 3.0 mln at reporting date, while all other balance sheet effects approximately compensated each other.

Equity in the group decreased, in M+M AG increased

Shareholders' equity according to IAS/IFRS in the group as of Dec 31, 2003, decreased to EUR 14.8 mln (PY: 17.8), the capital ratio decreased to 18.5% (PY: 21.3%).

As opposed to this, shareholders' equity in the financial statements of the mother company M+M AG set up in accordance to German accounting standard HGB increased to EUR 25.4 mln (PY: 24.5) with a capital ratio of 38.1% (PY: 36.4%).

Balance sheet structure still not optimal

Altogether, the balance sheet structure is still not optimal in spite of the partial repayment of debt. Therefore further lowering of debt remains the highest focus for the management board, not only through free cashflow, but possibly also by other equity steps or changes in the maturity of debt, e.g. refinancing from current to non-current credits. As well, more flexibility is projected in the financing structure, to allow for better "breathing" along with business volume. This is already achieved to a high degree outside Germany by having changed to loans against assignment of receivables or to factoring, while inside Germany such solutions are just projected.

Tighter financing environment

Compared to the status two years ago, when credit lines of far beyond EUR 40 mln were at the disposal of the M+M group, the financing environment for M+M has tightened due to the ongoing crisis of the banking sector and due to a certain downgrading of credit rating. On the other hand, the necessary flexibility could be secured by the capital increase, the loan granted by the CEO, improved securities for credit banks and partial change to "breathing" financing methods.

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.

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:
Concentration on the main suppliers Autodesk and PTC represent a certain risk through dependency on these suppliers' product development, market competence and operational policy.

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 would not only cause an appropriate depreciation of goodwill or investment value but also lead to a corresponding writedown of deferred tax assets in case of fully consolidated subsidiaries with loss carryovers.

Financing risk:
As 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 credit lines at several banks inside and outside Germany.

It cannot be excluded, however, 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 and further development 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.

Outlook

While revenue and result in fiscal year 2003 was still loaded by the development of the business model towards the three-pillar-strategy, restructuring costs, order backlog carried over to the new year and other effects, most of these items have an unloading impact on future accounting periods, as has the lower expense base.

2004: Moderate revenue increase and black numbers

Therefore the management estimates for 2004 sales of approximately EUR 140 mln and a positive operating result EBIT(A)* in the order of magnitude of several million EUR, as well as a clearly positive net result before goodwill amortization.

** Remark: It is generally expected that linear amortization of goodwill will no longer be applicable within the 2004 accounting period according to IFRS and will be replaced by higher focus on impairment tests, like already practised in US-GAAP since 2002. If this occurs, the difference between EBITA and EBIT is obsolete as long as no impairments are applicable.*

Growth mainly from PTC

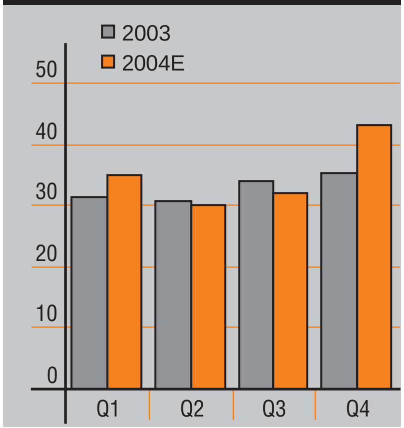
The distribution between segments is expected to further develop in favour of the strategically more important areas PTC and M+M technologies. Due to the still high potential, sales and gross margin from PTC should accelerate by 50% or more, while for M+M technologies, the management sees a growth potential in the upper one-digit percentage range. In the Autodesk segment, a very strong first quarter indicates that the decrease of sales and gross margin does not continue, but on the other hand no significant growth potential is expected here. This is in line with the expectation expressed by Autodesk concerning M+M's purchase volume for 2004.

Free Cashflow serving for debt repayment

When achieving these targets for 2004, a free cashflow amounting to EUR 5 mln should result, which can be used completely for lowering net debt. During the year, the cashflow and debt repayment effect is estimated to be even higher due to seasonality of business, as seen in 2003.

Normal quarterly seasonality expected
Quarterly seasonality is expected to be more like the pattern known until 2001: Approximately 25% of sales in first quarter, 20 to 22% each in the two middle quarters and around one third in the closing quarter.

Quarterly revenue (in million EUR)



Earnings seasonality is expected to be rather more extreme: Here fourth quarter can contribute up to 50%.

2005: Further improvement of profitability
In the coming fiscal year 2005, further optimization of EBIT(A) margin will be in the foreground. The M+M business model with its balance between software and distribution allows for a mid term EBIT(A) margin of up to 10%. For 2005 the target is set to 5-7%, resulting in EBIT(A) between EUR 7 and 10 mln at estimated sales of EUR 150 mln.
Net earnings (before goodwill amortization) would then be in the range between EUR 4 and 5 mln or EUR 0.70 to 0.90 per share.

Debt repayment and dividend possible
Free cashflow in this case would range at approximately EUR 10 mln with further restricted investment policy, resulting in more debt repayments as well as in an option to think about a small dividend payment for 2005.

All estimates subject to error
All forward looking statements made herein are subject to market conditions occuring in line with estimations in the planning models set up by the management. Therefore no guarantee can be undertaken for meeting the estimates.

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, which was characterized by huge challenges for development and restructuring the M+M group and demanding the highest efforts from all people involved.
As well, we would like to express our thanks to our shareholders for showing more confidence towards Mensch und Maschine Software AG and thus helping the share to gain new strength. We take this as a challenge to pay back the trust given us and aim for the very best possible results.

Wessling, March 29, 2004
Mensch und Maschine Software AG
The Board of Management

Development of the share

After three consecutive years of a bear market, the stock market finished 2003 with positive development. The start of the year had been accompanied by heavily declining stock prices due to worldwide political and economic uncertainties, leading to bottom levels for all main German indexes in March 2003. The trend reversal on the stock market was initiated by indications for a quick termination of the Iraq war and an increasingly positive economic feeling, resulting in more trust and confidence by investors. Consequently, stock prices recovered significantly, the most important German indexes finished the year with strong increases: DAX plus 37.1 percent, MDAX plus 47.7 percent, TechDAX plus 50.9 percent and SDAX plus 51.4 percent.

The Mensch und Maschine share was in the top group of winners on the German stock market in 2003 with an increase of more than 142 percent. The stock started at January 2nd at a price of Euro 3.80 and finished at the last trading day of the year at Euro 9.20. During the year, the M+M share more than once could decouple from the market trend and clearly beat the leading TecDax index.

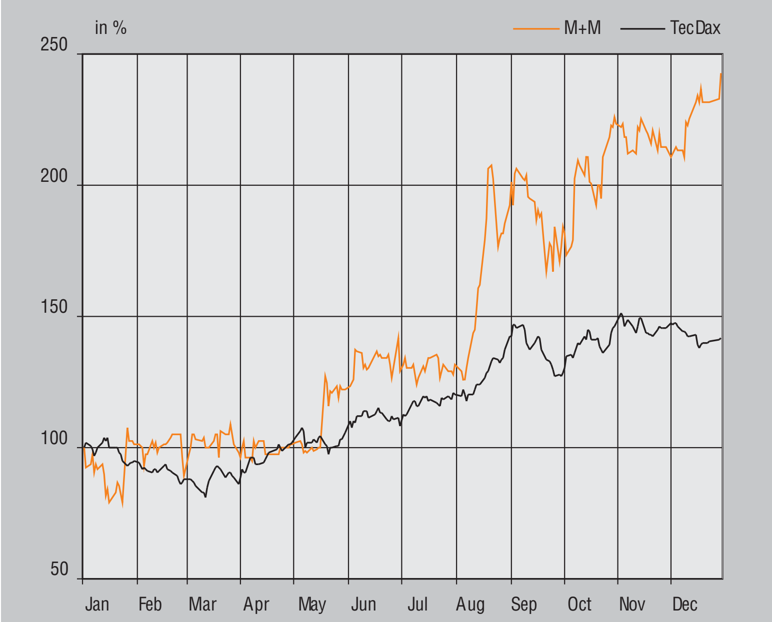
This satisfactory share price development is mainly underlined by the positive course of business. The market honoured the significant stabilisation of operating business, accompanied by the execution of the three-pillar-strategy, expanding the business model by PTC software distribution. As well, the consequent reduction of investments and the successful continuation of the cost cutting programme initiated in 2002, were positively received by the market.

In November 2003, we performed a capital increase, finding positive resonance from institutional investors. In the foreground of this transaction was a further strengthening of the financial basis for M+M. By exclusion of subscription rights, an expansion of the shareholder structure and an increase of freefloat was achieved. Altogether, 444,054 shares were placed at a price of Euro 7.75 per share. The company got a gross cash injection amounting to Euro 3.44 mln.

Due to high demand, CEO and main shareholder Adi Drotleff agreed after the capital increase to provide around 200,000 shares from his own portfolio for institutional investors. Drotleff granted the resulting sales value to M+M as an interest-free loan. After this transaction, his share was reduced to 47.2 percent of voting capital, while the freefloat further increased to 45.3 percent.

In total, the share capital grew to Euro 7.01 mln in the course of this capital increase. The share capital is divided into 5.49 million shares with a fraction of share capital of Euro 1.28 per share.

Development of the M+M share in comparison with the TecDAX



In the year 2003, we intensified the dialogue with the shareholders significantly. The management spoke with many investors during roadshows and one-on-one meetings. As well, the number of research studies was further increased. Actually, the company is covered by HypoVereinsbank and Independent Research, other studies are in preparation. To underpin our intensified investor relations activities on the stock market, we contracted Seydler AG as a designated sponsor since November 2003, securing the liquidity of our share and the concurrent quotation on Xetra. We will continue to put high focus on investor relations in the current fiscal year and further intensify the communication with the financial community.

Events	
May 24, 2004	Quarterly report Q1/2004
May 24, 2004	Annual shareholders' meeting
August 23, 2004	Half year report 2004
November 15, 2004	Quarterly report Q3/2004
March 21, 2005	Annual report 2004
March 21, 2005	Analysts' conference

CAD/CAM in practice

5-axis milling
of highly complex airfoil parts

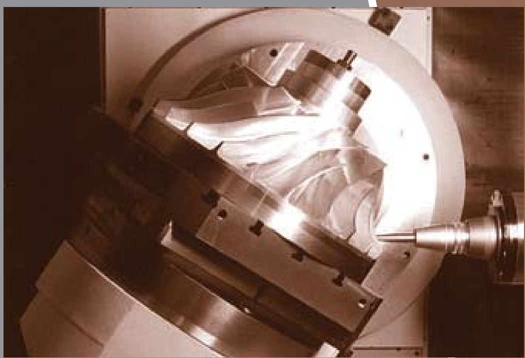
Project: Complete process chain from CAD through CAM down to machine tool

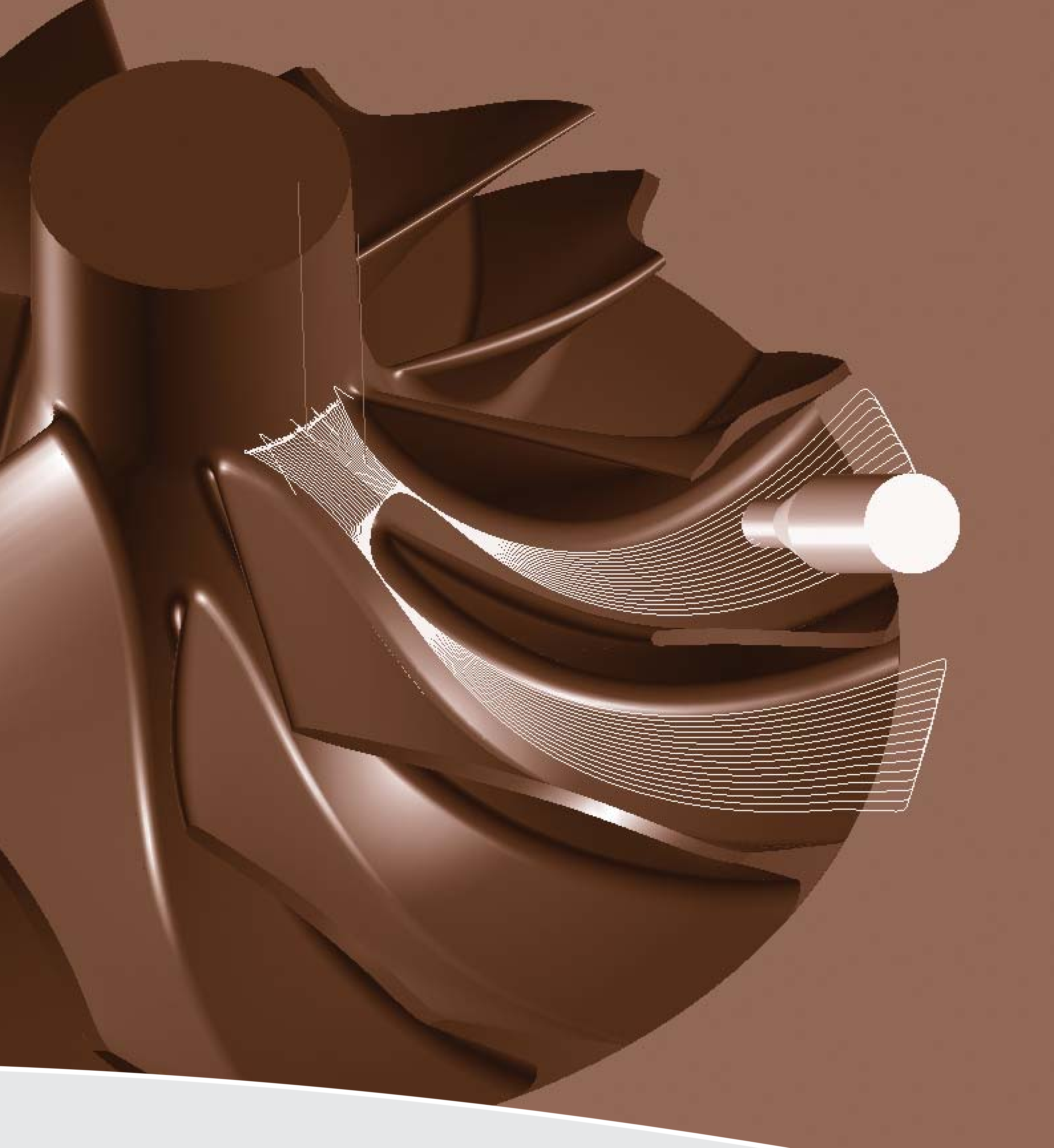
Customer: StarragHeckert AG, Rorschacherberg/Switzerland

Impellers and other complex airfoil parts require highly challenging collision checking in association with the calculation of milling tracks for production.

StarragHeckert, a Swiss precision machine tool manufacturer, therefore decided to use the CAD/CAM software, hyperMILL, from M+M group member OPEN MIND for these demanding tasks - inhouse, as well as for their customers.

Furthermore, a strategic development and sales cooperation was agreed in order to be able to offer the StarragHeckert customers an optimized matching process chain from CAD through CAM down to machine tool.





Statement of income

Amounts in KEUR	Note*	2003		Δ%	2002	
Revenues		**131,018**	**100%**	**-8.5%**	**143,118**	**100%**
Cost of revenues	1	-88,555	-67.6%	-7.6%	-95,881	-67.0%
Gross margin		**42,463**	**32.4%**	**-10%**	**47,237**	**33.0%**
Selling and marketing expenses	2	-28,530	-21.8%	-3%	-29,364	-20.5%
General and administrative expenses	3	-9,676	-7.4%	-20%	-12,114	-8.5%
Research and development expenses	4	-8,448	-6.4%	-7%	-9,080	-6.3%
Other operating income	5	1,719	1.3%	-14%	1,997	1.4%
Other operating expenses	6	-384	-0.3%		0	
Operating income / loss before amortization of goodwill		**-2,856**	**-2.2%**		**-1,324**	**-0.9%**
Amortization of goodwill		-1,390	-1.1%		-1,374	-1.0%
Operating income / loss EBIT before restructuring		**-4,246**	**-3.2%**		**-2,698**	**-1.9%**
Other expenses	7	-2,168	-1.7%		-6,542	-4.6%
Operating income / loss EBIT after restructuring		**-6,414**	**-4.9%**		**-9,240**	**-6.5%**
Interest income and expense	8	-2,455	-1.9%		-2,092	-1.5%
Income from affiliated companies	17	180	0.1%		0	
Income from other investments and participations		77	0.1%		27	0.0%
Depreciation on financial assets	9	-285	-0.2%		-1,170	-0.8%
Foreign currency exchange gains/losses		-326	-0.2%		-243	-0.2%
Result before income taxes (EBT)		**-9,223**	**-7.0%**		**-12,718**	**-8.9%**
Taxes on income	10	3,215	2.5%		3,769	2.6%
Other taxes		-345	-0.3%		-253	-0.2%
Net result from continuing operations		**-6,353**	**-4.8%**		**-9,202**	**-6.4%**
Net loss from discontinued operations	11	0			-5,094	-3.6%
Result before minority interest		**-6,353**	**-4.8%**		**-14,296**	**-10.0%**
Minority interest		36			0	
Net income / loss		**-6,317**	**-4.8%**		**-14,296**	**-10.0%**
Net income per share (basic)	12	-1,23			-2,84	
Net Income per share (diluted)		-1,19			-2,74	
Weighted average shares outstanding in million (basic)	12	5.116			5.042	
Weighted average shares outstanding in million (diluted)		5.326			5.226	

* see notes on pages 45-47 and 49

Balance sheet

Amounts in KEUR	Note*	Dec 31, 2003		△%	Dec 31, 2002	
Cash and cash equivalents		1,435		+15%	1,249	
Trade accounts receivable	13	27,787		+11%	25,153	
Accounts receivable due from related parties		958		+25%	764	
Inventories	14	5,138		-47%	9,623	
Prepaid expenses and other current assets	15	1,527		-66%	4,475	
Total current assets		**36,845**	**46.0%**	**-11%**	**41,264**	**49.6%**
Property, plant and equipment		3,596		-14%	4,196	
Intangible assets		993		-17%	1,190	
Goodwill	16	23,889		-5%	25,172	
Investments in affiliated companies	17	1,561			0	
Other Investments	18	2,796		-38%	4,489	
Deferred taxes	10	10,459		+51%	6.911	
Total non-current assets		**43,294**	**54.0%**	**+3%**	**41,958**	**50.4%**
Total Assets		**80,139**	**100%**	**-4%**	**83,222**	**100%**
Short term debt and current portion of long-term debt	19	28,030		-1%	28,230	
Trade accounts payable		22,251		+12%	19,912	
Accounts payable due to related parties		416		-19%	516	
Advance payments received		139		+21%	115	
Accrued expenses	20	3,201		-12%	3,628	
Deferred revenues		581		+26%	462	
Income tax payable		561		-34%	849	
Other current liabilities	21	3,102		-7%	3,327	
Total current liabilities		**58,281**	**72.7%**	**+2%**	**57,039**	**68.5%**
Long-term debt, less current portion	22	4,678		-36%	7,261	
Deferred taxes	10	68		-50%	135	
Pension accruals	23	276		-7%	297	
Other accruals		202		+14%	177	
Other non current liabilities	24	1,429			81	
Total non-current liabilities		**6,653**	**8.3%**	**-16%**	**7,951**	**9.6%**
Minority interest		**441**	**0.5%**	**-7%**	**472**	**0.6%**
Share capital	25	7,012		+9%	6,445	
Additional paid-in-capital	26	29,241		+10%	26.513	
Other reserves		221			221	
Retained earnings / accumulated deficit		-21,650		+41%	-15,333	
Currency conversion		-60		-30%	-86	
Total Shareholders' equity		**14,764**	**18.5%**	**-17%**	**17,760**	**21.3%**
Total Liabilities and Shareholders' equity		**80,139**	**100%**	**-4%**	**83,222**	**100%**

* see notes on pages 46 and 48-52

Statement of cash flows

Amounts in KEUR	Note*	2003	2002
Net result		**-6,317**	**-14,296**
Depreciation and amortization		3,317	12,396
Increase/decrease in provisions and accruals		-423	1,172
Losses/gains on the disposal of fixed assets		-143	267
Change in net working capital		2,777	2,143
Net cash provided by operating activities	27	**-789**	**1,682**
Acquisition of subsidiaries, net of cash acquired		-107	-3,279
Purchase of property, plant and equipment		-819	-3,648
Net cash used in investing activities		**-926**	**-6,927**
Proceeds from issuance of share capital		3,295	0
Proceeds from short or long-term borrowings		-2,784	4,344
Proceeds from shareholder loan		1,400	0
Payments to shareholders		0	-1,554
Net cash provided by financing activities		**1,911**	**2,790**
Net effect of currency translation in cash and cash equivalents		-10	-118
Net increase / decrease in cash and cash equivalents		**186**	**-2,573**
Cash and cash equivalents at beginning of period		**1,249**	**3,822**
Cash and cash equivalents at end of period		**1,435**	**1,249**

* see note on page 52

Development of shareholders' equity

Amounts in KEUR	Subscribed Capital	Capital Reserve	Other Reserves	Profit/ Loss	Currency exchange	Total Equity
As of Jan 1, 2002	**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
Net result				-14,296		-14,296
Currency conversion					-118	-118
Minority shares				-850		-850
As of Jan 1, 2003	**6,445**	**26,513**	**221**	**-15,333**	**-86**	**17,760**
Capital increase	567	2,874				3,441
Costs of capital increase		-142				-142
Proceeds from profit-sharing rights		-4				-4
Net result				-6,317		-6,317
Currency conversion					26	26
As of Dec 31, 2003	**7,012**	**29,241**	**221**	**-21,650**	**-60**	**14,764**

Segment reporting

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

Primary segmentation

The primary 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.

Geographical segmentation

The secondary segment is geographic and distinguishes product and service revenues by the group companies inside and outside Germany.

Within the segment reporting, expenses are reported separately for the segments, allowing for a segment specific report of gross profit as well as operating income before amortization of goodwill. Additionally, the distribution of fixed assets, investments of the fiscal year and liabilities is separately reported for the segments.

As opposed to the presentation in previous years, the primary and secondary segment were exchanged, because the segmentation of M+M technology and trading products meanwhile has a higher significance than the geographical segmentation.

Primary segmentation

Amounts in KEUR	2003				2002			
	M+M technology		Trading products		M+M technology		Trading products	
Revenues	**25,065**	**19%**	**105,953**	**81%**	**27,321**	**19%**	**115,797**	**81%**
Cost of revenues	-3,863	4%	-84,692	96%	-5,200	5%	-90,681	95%
Gross margin	**21,202**	**50%**	**21,261**	**50%**	**22,121**	**47%**	**25,116**	**53%**
Sales and marketing expenses	-9,205	32%	-19,325	68%	-9,439	32%	-19,925	68%
General and administrative expenses	-3,770	39%	-5,906	61%	-4,417	36%	-7,697	64%
Research and development expenses	-8,448	100%	0	0%	-9,080	100%	0	0%
Other operating income	660	38%	1,059	62%	1,055	53%	942	47%
Other operating expenses	-371	97%	-13	3%	0		0	
Operating result before goodwill amortization and restructuring	**68**		**-2,924**		**240**		**-1,564**	
Net loss from discontinued operations	0		0		-5,094	100%	0	0%
Impairment of assets	-285	100%	0	0%	-5,666	100%	0	0%
Income from affiliated companies	180	100%	0	0%	0		0	
Fixed assets	18,241	56%	14,594	44%	20,050	57%	14,997	43%
Investments	546	59%	380	41%	5,899	85%	1,028	15%
Liabilities	27,088	42%	37,847	58%	27,890	43%	37,100	57%

Secondary segmentation

Amounts in KEUR	2003				2002			
	Germany		International		Germany		International	
Revenues	**48,134**	**37%**	**82,884**	**63%**	**55,058**	**38%**	**88,060**	**62%**
Cost of revenues	-26,182	30%	-62,373	70%	-30,999	32%	-64,882	68%
Gross margin	**21,952**	**52%**	**20,511**	**48%**	**24,059**	**51%**	**23,178**	**49%**
Sales and marketing expenses	-14,954	52%	-13,576	48%	-15,555	53%	-13,809	47%
General and administrative expenses	-4,536	47%	-5,140	53%	-6,808	56%	-5,306	44%
Research and development expenses	-8,448	100%	0	0%	-9,080	100%	0	0%
Other operating income	1,248	73%	471	27%	1,605	80%	392	20%
Other operating expenses	-371	97%	-13	3%	0		0	
Operating result before goodwill amortization and restructuring	**-5,109**		**2,253**		**-5,779**		**4,455**	
Net loss from discontinued operations	0		0		-5,094	100%	0	0%
Impairment of assets	-285	100%	0	0%	-5,666	100%	0	0%
Income from affiliated companies	0	0%	180	100%	0		0	
Fixed assets	21,276	65%	11,559	35%	21,746	62%	13,301	38%
Investments	735	79%	191	21%	6,101	88%	826	12%
Liabilities	40,005	62%	24,930	38%	34,642	53%	30,348	47%

GIS in practice

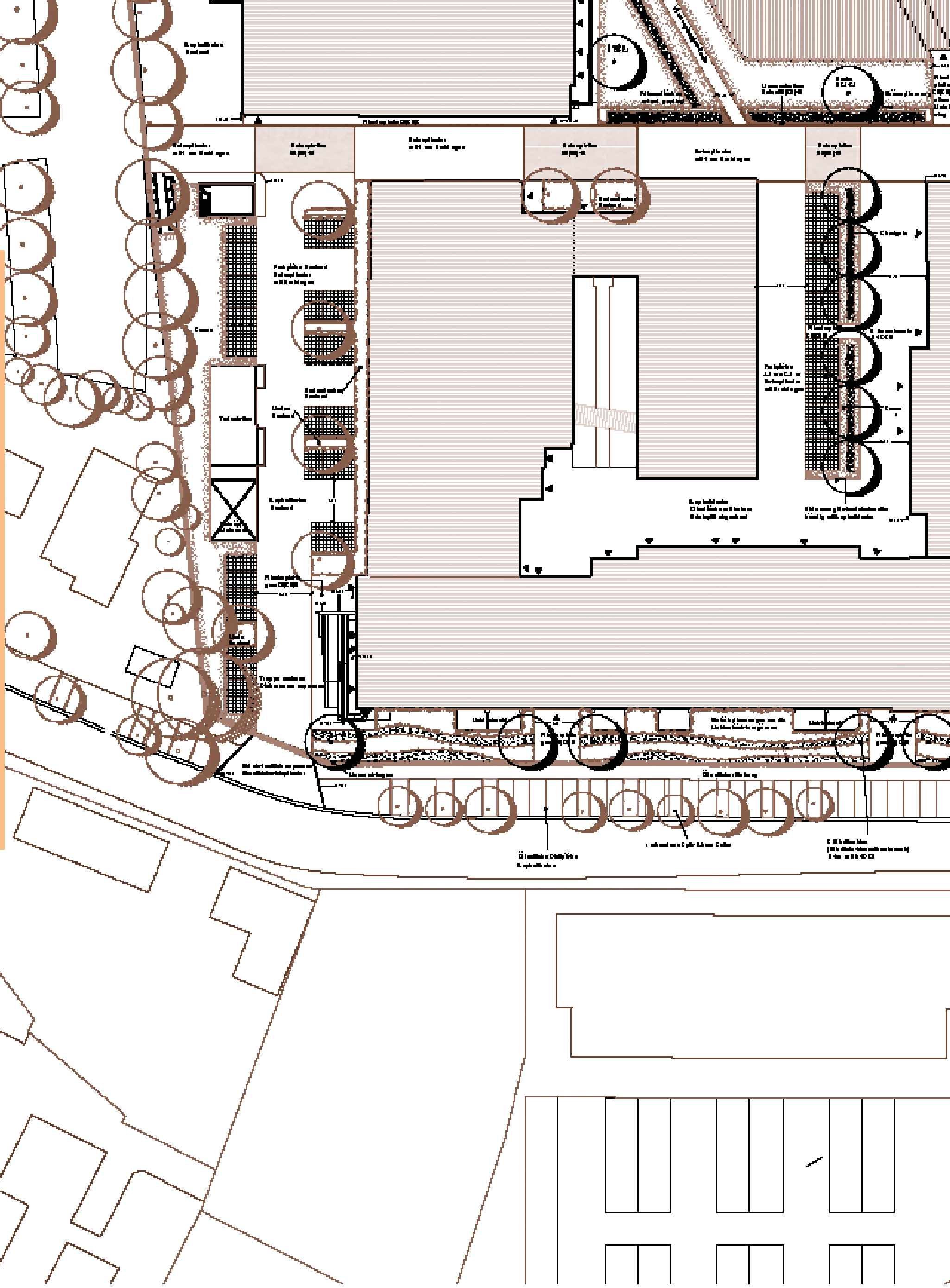
DATAflor CAD V6 for landscape planing

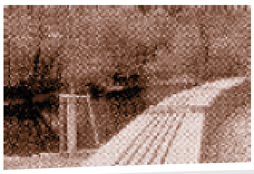
Project: Uferstadt in Fuerth, Germany

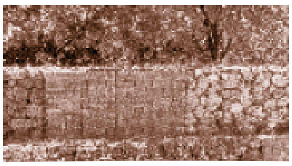
Customer: Ermisch & Partner Landschaftsplanung, Roth

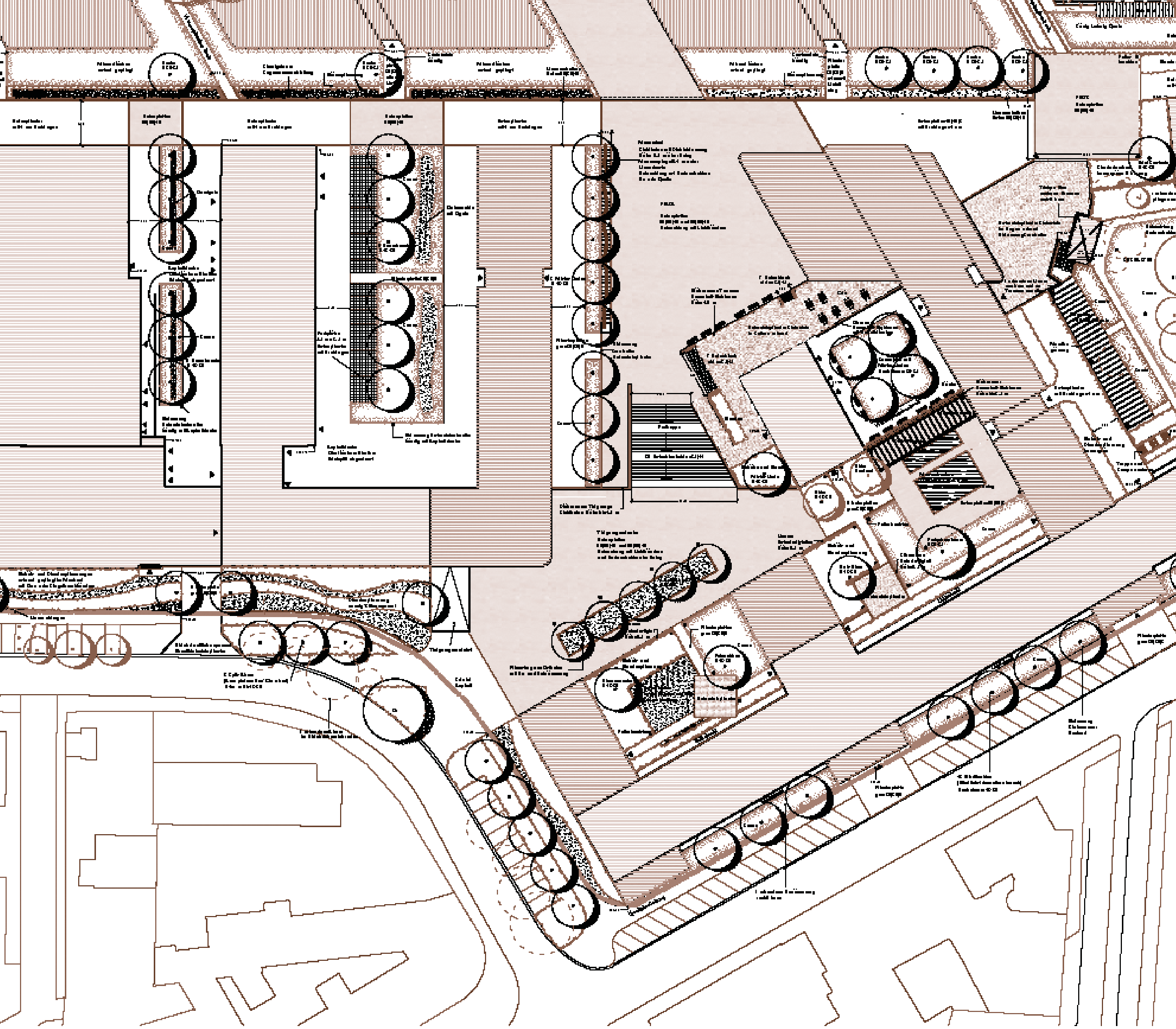
DATAflor CAD V6 perfectly harmonizes tools for the creation of high quality drafts with a variety of cost and time saving functions.

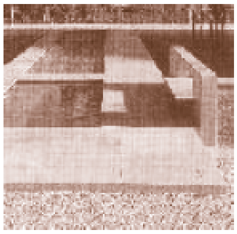
The high versatility of the DATAflor solution is also valued by the architectural office Ermisch & Partner. The landscaping architects located in Roth/Germany are using the system successfully for many years. The program supports the creative people in all project phases - from digital design down to complex mass calculations.











Notes

General remarks

Basis of the group financial statement
The consolidated financial statement of Mensch und Maschine Software AG, Wessling, Germany (parent company or MuM AG) 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 Financial Reporting Standards (IFRS), 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 No.1 (DRS 1 - Befreiender Konzernabschluss according to §292a HGB).

M+M group consolidated companies	
Mensch und Maschine Systemhaus GmbH, Wessling	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 Ltd., Thame, UK	100%
Man and Machine AB Sundbyberg (Stockholm), Sweden	100%
Man and Machine Benelux NV, Ternat (Brussels), Belgium	100%
EUKLID Software GmbH, Wessling, Germany	100%
DATAflor Software Aktiengesellschaft, Goettingen, Germany and 100% shareholdings: DATAflor EDV fuer die gruene Branche GmbH, Goettingen, Germany DATAflor Vertriebs GmbH, Grossbeeren, Germany DATAline Service und Support GmbH, Goettingen, Germany	61.5%
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 USA Inc., Southfield/Michigan, USA OPEN MIND Software Technologies PTE Ltd., Singapore OPEN MIND Software Technologies Italia s.r.l., Rho (Milan), 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 38 were fully consolidated in the group financial statement of December 31, 2003.

Balance sheet closing date for the subsidiaries included in the group consolidated financial statement is December 31.

As of Jan 1, 2003, DATAflor Software AG acquired 100% of the shares for the DATAline Service and Support GmbH which has been included the first time in the consolidated financial statements.

The totally owned subsidiaries of OPEN MIND Technologies AG, OPEN MIND Software Technologies GmbH, Unterfoehring, OPEN MIND Technologies Vertriebs GmbH, Unterfoehring, and OPEN MIND Technologies Deutschland GmbH, Kirchheim/Teck have been merged into OPEN MIND Technologies AG, Unterfoehring, Germany as of Dec 30, 2003.

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.

Principles of consolidation

The consolidated financial statements includes the business of all majority-owned subsidiaries, of which MuM has control according to IAS 27.6, mainly because of a share ownership of more than 50 percent.

The Capital consolidation pursuant to IAS 22.17 is performed using the benchmark method, by offsetting the bookvalues 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 MuM AG takes the 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 M+M 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.

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.

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 regular depreciation. These assets are depreciated over the useful economic life of 3 to 10 years.

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. No development costs are capitalized in the M+M group.

Goodwill is depreciated over a period of 20 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 with a acquisition value of less than EUR 400 are fully written off in the year of purchase.

Other Investments

Financial assets include shareholdings in other companies. 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 27.24, 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 calculate 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.

Shares in affiliated companies

Participations were M+M AG exercises a relevant influence, usually due to a investment holding between 20 and 50 per cent, are accounted at equity according to IAS 28. With the equity method no assets and liabilities nor proceeds and expenditures are consolidated, but the historical acquisition costs are adjusted annually about the equity change, which corresponds to the capital share of M+M AG, less a linear goodwill amortization.

During the first at equity incorporation of a participation a difference from the initial consolidation is treated according to the principles of a full consolidation.

C-plan AG, Muri near Bern, Switzerland, at which the M+M AG is holding 20 per cent investment, has been included at equity in the concolidated financial statements initially in 2003. Since 1.1.2003, M+M exercises a relevant influence over C-plan AG, due to increasing control on finance and business decision-making processes.

Deferred Taxes

For the deferral of deferred taxes M+M uses the temporary concept according to IAS 12 which admits as balance-oriented method. Therefore each balance and valuation discrepancy between IFRS and the tax balance is included in the deferral, if the difference dissolves in the lapse of time and has a effect on the taxable base. Additionally, deferred tax assets are capitalized on tax loss carry forwards according to IAS 12.34 if they can offset with probable future fiscal profits.

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.

Equity costs
According to SIC-17 the costs for the capital increase are offset with the additional paid in capital.

Financial instruments
The M+M 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. The discounting rate applied is 5.5%, the expected return of the plan asset 5.0% and the expected salary increase is 2% per year.

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 if the prerequisites of IAS 18 are met.

Impairment of assets
The impairment of other financial investments amounting to TEUR 285 applies to the value of the shareholding in CYCO BV, Netherlands 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. In the reporting period no acquisitions occurred.

Stock option plans

Until balance-sheet date it is not prescribed in IFRS to book personnel expenses for the granting of share options and neither has Mensch und Maschine AG done this so far. However as of Dec 31, 2003, the Exposure Draft 2 (Share based payment) exists, which was published as IFRS 2 at the end of February 2004. Therefore share-based remuneration for employees has to be accounted for as personnel expenditure in the future. IFRS 2 has to be used in principle for reporting periods, beginning after January 2005. Regarding share options IFRS 2 has to be used, for shares granted after November 7, 2002 and and not expired at the time of the effective date of IFRS 2.

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 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 the contingent capital, so 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, 2003 and the lower line reports all outstanding options.

If all 210,014 exercisable options converted, this would lead to an injection of capital amounting to KEUR 5,303. In terms of the number of shares as at December 31, 2003

(5,485,957) and the equity as at December 31, 2003 of KEUR 14,764, this would correspond to 3.83% growth in the number of shares and a 35.9% increase in the equity. In terms of the total number of exercisable stock options (210,014) plus those not yet exercisable (319,708), that means 529,722 outstanding options and an associated injection of capital amounting to KEUR 8,956, the following values are derived: number of shares +9.66% and capital growth +60.6%.

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

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 subordinate role.

2. Sales and marketing expenses
This position contains personnel expenses amounting to KEUR 14,007 (PY: 14,252), other operating expenses amounting to KEUR 13,689 (PY: 14,279) and depreciation amounting to KEUR 834 (PY: 833).

3. General and administrative expenses
This position contains personnel expenses amounting to KEUR 4,481 (PY: 5,884), other operating expenses amounting to KEUR 4,719 (PY: 5,571) and depreciation amounting to KEUR 476 (PY: 659).

4. Research and development expenses
This position contains personnel expenses amounting to KEUR 5,705 (PY: 6,130), other operating expenses amounting to KEUR 2,412 (PY: 2,599) and depreciation amounting to KEUR 331 (PY: 351).

Development of stock option rights

Year of issue		1997	1998	1999	2000	2001	2002	2003	Total 97-03
Strike price	EUR	11.50	33.89	29.99	24.94	13.69	12.41	4.89	
Total number granted		70,400	116,200	90,900	88,300	113,148	124,634	120,554	724,136
as of Dec 31, 2003	excercised	45,550	600	-------	-------	-------	-------	-------	46,150
	expired	10,250	64,700	22,200	18,400	23,420	7,892	1.402	148,264
	excercisable	14,600	46,900	68,700	34,950	44,864	-------	-------	210,014
not yet excercisable total		-------	4,000	-------	34,950	44,864	116,742	119,152	319,708
excercisable as of	2004	-------	4,000	-------	34,950	-------	58,371	-------	97,321
	2005	-------	-------	-------	-------	44,864	-------	59,576	104,440
	2006	-------	-------	-------	-------	-------	58,371	-------	58,371
	2007	-------	-------	-------	-------	-------	-------	59,576	59,576
Capital increase in KEUR for									
Excercisable options only		168	1,589	2,060	872	614	0	0	5,303
All options outstanding		168	1,725	2,060	1,743	1,228	1,449	583	8,956

5. Other operating income
Other operating income contains returns from private use of cars and telephones in the amount of KEUR 528 (PY: 588), rents received amounting to KEUR 308 (PY: 698) and other income amounting to KEUR 883 (PY: 711).

6. Other operating expenses
In this position there are bad debt expenses unrelated to the accounting period.
In the previous year these expenses amounting to KEUR 438 are shown under the general and administration expenses.

7. Other expenses
This position mainly implies restructuring costs amounting to KEUR 1,734 (PY: 770) and provisions amounting to KEUR 434 (PY: 1,085). The prior year also contains the impairment of capitalized development costs amounting to KEUR 4,496.

8. Interest income and expense
This position includes interest income amounting to KEUR 54 (PY: 102) and interest expenses amounting to KEUR 2,509 (PY: 2,211).

9. Depreciation on financial assets
This position contains an extraordinary depreciation on the net book value of the shareholding in CYCO BV, Netherlands amounting to KEUR 285 (PY: Impairment of YELLO! AG in the amount of KEUR 1.170).

10. Taxes
This item encompasses tax payments amounting to KEUR 400 (PY: 684), a surplus amounting to KEUR 3,548 (PY: 2,790) from further development and revaluation of tax assets in accordance with IAS 12, as well as a surplus of KEUR 67 (PY: 1,663) from removing deferred taxes liabilities.

The deferred tax assets are mainly based on realizable tax loss carry forwards with an amount of KEUR 9,136 (PY: 5,467).
The realization of the tax loss carry forward has been proved by planning forcasts and flexible tax models of optimization.

In the past financial year, deferred tax assets on tax loss-carryforwards have been created amounting to KEUR 3,669 (PY: 3,562).

For fiscal years beginning in 2004 only gains amounting to KEUR 1,000 can be offset without a limit on taxable gains.
Additional annual net profits can only be reduced by 60% with tax loss carry forwards from German entities.

At the moment there are no time restrictions for the utilization of the tax assets in the M+M group.

The temporary differences include deferred tax assets amounting to KEUR 1,324 (PY: 1,246) resulting from different valuations of intangible assets, as well as deferred tax liabilities amounting to KEUR 68 (PY: 135). The changes have been booked as tax expenditure or proceeds.

The transition between the expected taxes and the actual tax proceeds are explained by the following reconciliation:

Tax reconciliation

Amounts in KEUR	2003	2002
Result before income tax	**-9,223**	**-12,718**
Legal tax rate	37%	37%
Expected tax proceeds	**3,413**	**4,706**
Tax rate variances		
Foreign tax rate differential	-274	-147
Deviation of the taxable base		
Non deductable expenses	108	70
Tax free income from investments	-67	0
Amortization of goodwill	514	508
Taxable depreciation of intangible assets	-459	-459
Reversal of tax effects	296	-296
Impairment of assets	-105	-1,409
Valuation of deferred tax assets		
Nonexecution of deferred tax assets	285	765
Belated execution of deferred tax assets	-518	0
Other	**22**	**31**
Actual tax proceeds	**3,215**	**3,769**
Effective tax rate in %	**34.9%**	**29.6%**

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

11. Net loss from discontinued operation

In the reporting period no business operations have been discontinued. (PY: Net loss from the discontinuing operation of RCT Research GmbH amounting to 5,049).

12. 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.

	2003	2002
Net loss KEUR	-6,317	-14,296
Weighted number of shares	5,115,912	5,041,903
Non diluted earnings per share EUR	-1.2348	-2.8354
Number of executable options	210,014	184,450
Diluted number of shares	5,325,926	5,226,353
Diluted earnings per share EUR	-1.1861	-2.7354

Fixed assets register

	Acquisition costs					Accumulated depreciation				Net book value	
	Jan 1, 03	Addition	Disposal	Transfer	Dec 31, 03	Jan 1, 03	Addition	Disposal	Dec 31, 03	Dec 31, 03	Dec 31, 02
I. Tangible assets	**8,685**	**576**	**-1,707**	**0**	**7,554**	**4,489**	**1,060**	**-1,591**	**3,958**	**3,596**	**4,196**
II. Intangible assets	**12,116**	**386**	**-9,624**	**0**	**2,878**	**10,926**	**582**	**-9,623**	**1,885**	**993**	**1,190**
1. Development costs	9,239		-9,239	0	0	9,239		-9,239	0	0	0
2. Other	2,877	386	-385	0	2,878	1,687	582	-384	1,885	993	1,190
III. Goodwill	**29,642**	**107**	**0**	**0**	**29,749**	**4,470**	**1,390**	**0**	**5,860**	**23,889**	**25,172**
IV. Financial assets	**5,659**	**180**	**-27**	**0**	**5,812**	**1,170**	**285**	**0**	**1,455**	**4,357**	**4,489**
1. Investments	5,499	0	0	-1,381	4,118	1,170	285	0	1,455	2,663	4,329
2. Affiliated companies	0	180	0	1,381	1,561	0	0	0	0	1,561	0
3. Other	160	0	-27	0	133	0	0	0	0	133	160
V. Deferred taxes	**6,911**	**3,821**	**-273**	**0**	**10,459**	**0**	**0**	**0**	**0**	**10,459**	**6,911**
(all amounts in KEUR)	**63,013**	**5,070**	**-11,631**	**0**	**56,452**	**21,055**	**3,317**	**-11,214**	**13,158**	**43,294**	**41,958**

Notes to the balance sheet

Assets

Current assets

13. 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.

14. Inventories

This position predominantly contains purchased goods amounting to KEUR 3,660 (PY: 8,229), software licences amounting to KEUR 1,083 (PY: 998) and work in process amounting to KEUR 360 (PY: 291).

15. 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 2003 is indicated in the fixed assets register.

16. Goodwill

The addition of KEUR 107 (PY: 14,467) relates to the increase of the majority-owned subsidiary DATAflor AG from 57.1% to 61.5%. The acquisition made by payment of KEUR 146 in cash.

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

Goodwill development

Amounts in KEUR	Dec 31, 2002	Addition	Amortization	Dec 31, 2003
OPEN MIND	7,857		-394	7,463
EUKLID	3,824		-201	3,623
M+M UK	3,162		-180	2,982
M+M Sweden	3,047		-171	2,876
M+M Switzerland	1,339		-74	1,265
DATAflor	1,090	107	-62	1,135
COMPASS (AIM)	1,192		-62	1,130
M+M Italy	1,204		-88	1,116
ECS	751		-40	711
M+M Akademie	741		-41	700
M+M Poland	507		-33	474
M+M France	368		-35	333
M+M Austria	90		-9	81
Total	**25,172**	**107**	**-1,390**	**23,889**

17. Investments in affiliated companies

Since Jan 1, 2003 C-Plan AG, Muri near Bern, Switzerland is consolidated at equity. In 2003 the increase of the book value is KEUR 180 (PY: 0). Intercompany profits and losses herewith have been insignificant. The variance between the prorated equity of the company and the net book value in the affiliated company amounts to KEUR 901, resulting predominantly from acquired goodwill.

18. Other Investments

Other Financial assets mainly include strategic shareholdings.
The following investments existed on December 31, 2003:

Investments on Dec 31, 2003

Amounts in KEUR	in %	Book value
YELLO! AG, Wiesbaden	29.3	427
CTB GmbH & Co KG, Buchholz	19.9	200
SOFiSTiK AG, Munich	14.3	896
CYCO BV, Netherlands	7.4	1,140

M+M is performing current evaluations of the financial assets. For this purposes DCF models as well as industry-specific multipliers, which are multiplied by the shareholding's sustained gross margin are used to verify possible impairments. Actually twice the sustained annual gross margin is taken as the maximum book value of an investment not causing an impairment. According to this valuation scheme a depreciation of KEUR 285 for CYCO BV, Netherlands has been booked.

The maximum loss risk is the amount of the respective net book value plus loans given to shareholdings if applicable, amounting to KEUR 958 (PY: 764) as of Dec 31, 2003.

Liabilities

Current liabilities

19. Short term debt and current portion of long-term debt

This position almost exclusively contains bank loans at principal banks in Germany and abroad in the context of credit lines extended. They are mainly secured by assignments of a claim, pledging of shares at technology subsidiaries as well as endorsements of members of the executive committee or the management of individual subsidiaries.

20. Accrued expenses

Accruals are calculated by taking all identifiable risks into account and always represent the expected repayment amount.
They mainly include accruals for personnel and restructuring accruals. The development of the accruals in the reporting period is shown in the table of accrual development.

21. Other current liabilities

This position mainly includes debts from VAT and tax on wages and salaries, outstanding social security costs and deferred income.

Non-current liabilities

22. 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 2,454 (PY: 4,090).
It is collateralized by pledging stakes in the subsidiaries in England and Sweden.
Furthermore, this position contains mortgage loans secured by property charges for the company buildings from ECS and DATAflor amounting to KEUR 1,129 (PY: 1,488).

23. 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 pension accruals at the balance sheet date amounts to KEUR 276 (PY: 297), of which an amount of KEUR 276 represents the determined cash value of the performance-oriented obligation not financed via funding. The cash value determined as at the balance sheet date of the performance-oriented obligations financed via funds amounts to KEUR 1.445. 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 874. 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 89, interest expenses amounting to KEUR 88 and current time of service expenditure amounting to KEUR 43. The stated expenses and income are included in the general and administrative expenses.

24. Other non current liabilities

This position mainly contains the interest free shareholder loan of KEUR 1,400 from CEO and principal shareholder Adi Drotleff.

Table of accrual development

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 Man and Machine AB, Sundbyberg (Stockholm), Sweden and the french Man and Machine S.a.r.l. and apply to the restructurings planned for the first half of 2004.

Table of accrual development

Amounts in KEUR	Dec 31, 2002	Disposal	Addition	Dec 31, 2003
Personnel accruals	1,445	-1,445	1,342	1,342
Restructuring accruals	730	-730	434	434
Liquidation accruals RCT	355	-335	0	20
Outstanding bills	363	-363	745	745
Other	735	-735	660	660
Total current accruals	**3,628**	**-3,608**	**3,181**	**3,201**
Personnel accruals	177	0	25	202
Other	0	0	0	0
Total non-current accruals	**177**	**0**	**25**	**202**
Total accruals	**3,805**	**-3,608**	**3,206**	**3,403**

Shareholders' equity

25. Share capital

The subscribed capital of M+M AG as of Dec 31, 2003 comprised 5,485,957 (PY: 5,041,903) shares, with a calculated stake of EUR 1.2781 per share. Due to the capital increase performed at Nov 13, 2003, the subscribed capital increased by KEUR 567 to KEUR 7,012 through the issuance of 444,054 new shares.

26. Additional paid-in capital

The capital reserve item primarily comprises the premiums from the 1996 to 1998 and 2002 capital increases as well as premiums from options exercised amounting to KEUR 20,605 (PY: 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

27. 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 2,509 (PY: 2,211), interest received in cash was KEUR 54 (PY: 102). In addition, income taxes of KEUR 400 (PY: 1,037) were settled in cash.

Other supplementary information

Other financial obligations and contingent liabilities

The other financial obligations resulting from rental and operating lease contracts for the group as a whole amounting to KEUR 12,978 (PY: 12,125).
The due dates of payments are as following:

	in KEUR
2004	3,411
2005	2,331
2006	1,524
2007	1,221
2008	788
following years	3,703
Total	**12,978**

Material leasing contracts mainly apply to office buildings at several locations, SAP software and company cars.

Additionally, there is a contingent liability as of April 1, 2007, from the OPEN MIND AG acquisition towards some of the old shareholders, which will be payable if the M+M share price should not achieve a level of EUR 30.50 per share for a period of at least four weeks until April 1, 2007. 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. So the maximum additional payment (at a M+M share price of zero) thus would be 30.50 x 96,358 = KEUR 2,939.

Employees
The group's average number of employees (excluding temporary workers and trainees) during the fiscal year was 405 (PY: 467).

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 Schützenberger, Kaufmann, Hagenheim (CFO)
Werner Schwenkert, Diplom-Kaufmann, Munich (CTO)

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
Anton Sommer, Managing Director of Sommer Equity Consulting GmbH, Waltenhofen, Vice-Chairman
Thomas Becker, Diplom-Kaufmann, Tax consultant, Neuss

Remuneration of board members
Remuneration for the management board amounted to KEUR 714, of which an amount of KEUR 0 (PY: 0) was variable. In prior year the board member Werner Schwenkert started May 1, 2002. Adjusted for this effect the prior year benchmark figure would be KEUR 740, the actual expense has been KEUR 706. The management remuneration decreased by 3.5% due to a voluntary partially salary sacrifice.

Additionally the members got non cash remuneration (e.g. company cars, pension commitments, life insurances) amounting to KEUR 160 (PY 151). The management board was granted share options during the period covered by the present report to a total value of KEUR 24 (PY: 66). 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 2003

in KEUR	fixed	variable	non cash	Options
Adi Drotleff	176	0	70	4
Peter Baldauf	106	0	17	4
Michael Endres	103	0	17	4
Peter Schuetzenberger	119	0	17	4
Jens Jansen	108	0	20	4
Werner Schwenkert	102	0	19	4

Remuneration for the advisory board totalled 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, 2003, the members of the management board owned 3,048,148 shares (PY: 3,245,094) and 71,400 options (PY: 52,200) in Mensch und Maschine Software AG. Stock ownership of the members of the advisory board as of Dec 31, 2003, was 1,700 shares (PY: 1,700), the option ownership of the members of the advisory board was 0 (PY: 3,200).

Stock and option ownership of individual members of the boards as per Dec 31, 2003 shows following table:

Directors' holdings Dec 31, 2003		
Management Board	Shares	Options
Adi Drotleff	2,590,954	12,800
Peter Baldauf	10,222	14,600
Michael Endres	12,000	14,000
Peter Schuetzenberger	15,000	14,000
Jens Jansen	9,972	10,600
Werner Schwenkert	410,000	5,400
Supervisory Board		
Friedrich Soldner	1,200	0
Anton Sommer	500	0
Thomas Becker	0	0

Other advisory board memberships of board members

On December 31, 2003, Mr. Sommer also served as chairman of the advisory board for Saechsisches Druck- und Verlagshaus AG, Dresden.

On December 31, 2003, Mr. Becker also served as a member of the advisory board for DATAflor AG, Goettingen.

On December 31, 2003, 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, 2003, 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 2004 the declaration required in accordance with §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 29, 2004. Publishing was approved by the advisory board. The date of publishing was March 29, 2004.

PDM/PLM in practice

Significantly lowering development time and parts prices

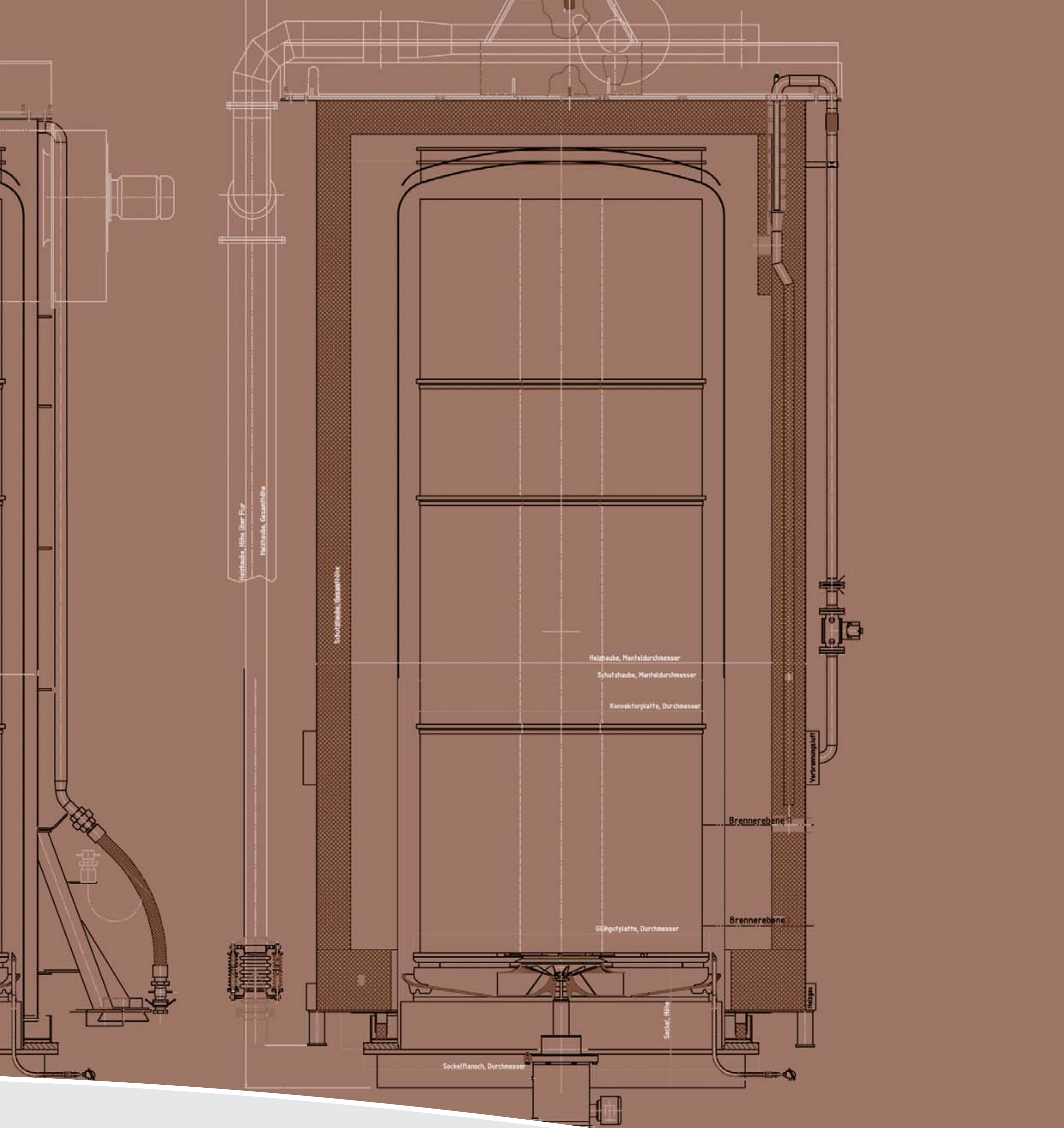
Project: Standardizing the development process with COMPASS

Customer: LOI Thermprocess, Essen/Germany

The Ruhrgas group member LOI Thermprocess, Essen, is a woldwide leader in the construction of large oven plants for the steel, aluminium and automotive industry.

LOI is using the COMPASS PDM/PLM system from M+M on 90 seats. PDM/PLM means Product Data Lifecycle Management, i.e. the database-management of product-related data throughout the whole design process and product lifecycle.

COMPASS assists LOI in standardizing their products, which significantly helps to lower development time and purchase prices of externally sourced standard parts.


Heizhaube, Höhe über Flur
Heizhaube, Gesamthöhe
Schutzhaube, Gesamthöhe
Heizhaube, Manteldurchmesser
Schutzhaube, Manteldurchmesser
Konvektorplatte, Durchmesser
Verbrennungsluft
Brennerebene
Glühgutplatte, Durchmesser
Brennerebene
Heizgas
Sockel, Höhe
Sockelflansch, Durchmesser

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 2003, five joint board meetings took place on March 19, March 31, May 19, September 30 and December 12, 2003. 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.

Advisory and Management Board 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 annual report of Mensch und Maschine Software AG as of December 31, 2003 including the management report, as well as the group annual report as of December 31, 2003 including the management report for the group was set up by the Management Board and audited by Ernst & Young 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 17 and 26, 2004, 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 with §172 AktG.

The dedication and commitment displayed by management and employees again contributed fundamentally to the company's commercial success during fiscal year 2003. 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 29, 2004
The Advisory Board

Friedrich Soldner
Chairman

Auditors’ Report

"We have audited the consolidated financial statements, comprising the balance sheet, statement of operations, statement of changes in stockholders' equity and statement of cash flows and segment reporting, as well as the notes to the consolidated financial statements, prepared by Mensch und Maschine AG, Wessling, for the business year from January 1 to December 31, 2003. 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 financial statements are in accordance with International Financial Reporting Standards (IFRS) 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 Company 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 and Company's executive board, 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 IFRS.
Our audit, which also extends to the Group´s management report prepared by the executive board, for the business year from January 1 to December 31, 2003, has not led to any reservations. In our opinion, on the whole the Group´s 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´s management report for the business year from January 1 to December 31, 2003 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the Group´s management report in accordance with German law."

Munich, March 29, 2004

Ernst & Young AG
Wirtschaftspruefungsgesellschaft

J. Zapf
German public auditor

D. Gallowsky
German public auditor

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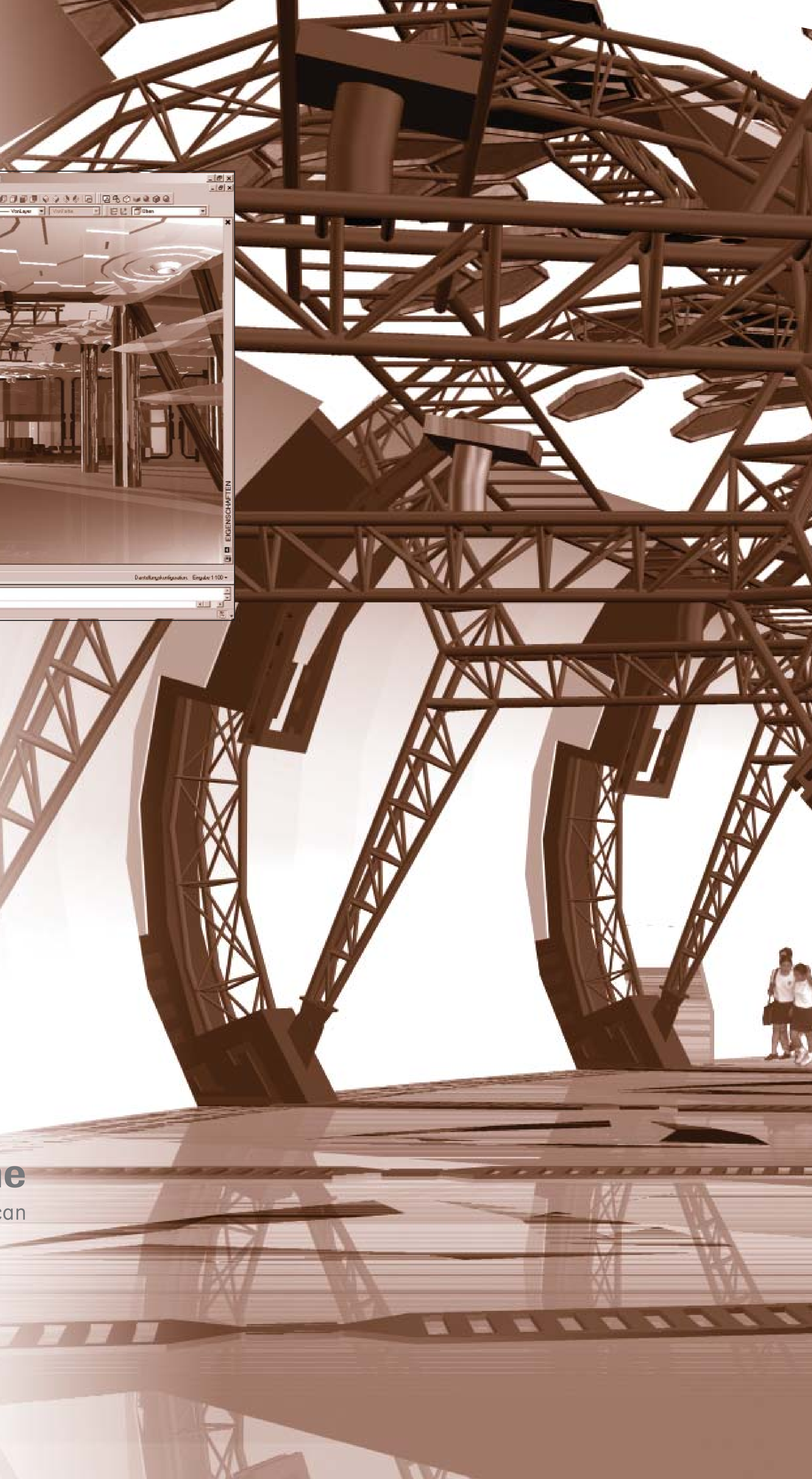

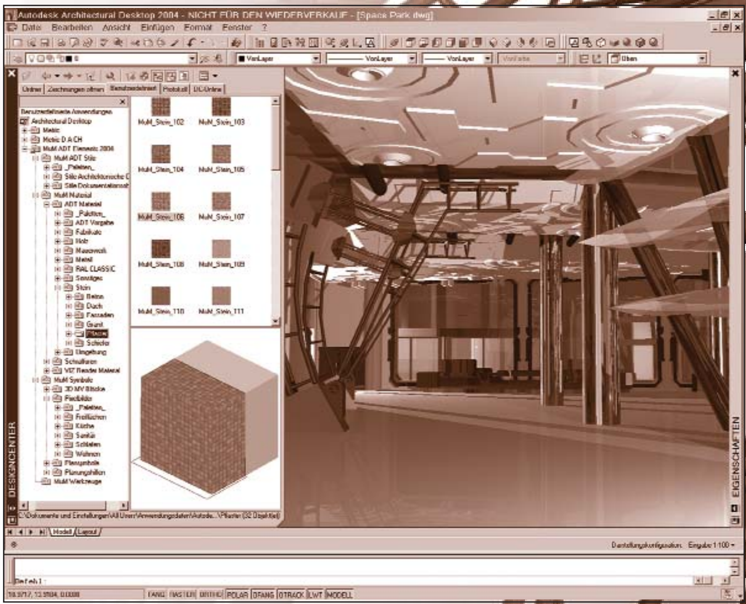

CAD in practice: Complex architectural project

Project: Space Center Bremen, Germany

Customer: Space Center Betriebs GmbH Co. KG

The Space Center is the largest European indoor entertainment park covering more than 22,000 square metres. It was opened to the public in February 2004. The visitors are provided with a brand new programme including professional space entertainment and the possibility to experience live adventures in space. For architectural projects of this kind, the new low-priced M+M applications "Elements", "Umbau", "Massen" and "Energy" are a valuable aid for users of Autodesk's base software Architectural Desktop.

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