DASSAULT SYSTEMES SA
Form 20-F
May 15, 2003

As filed with the Securities and Exchange Commission on May 15, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G) OF THE SECURITIES EXCHANGE ACT OF 1934

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2002

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from to

Commission file number 0-28578

DASSAULT SYSTEMES

(Exact name of Registrant as specified in its charter)

France

(Jurisdiction of incorporation or organization)

9, Quai Marcel Dassault

B.P. 310, 92156 Suresnes Cedex, France
(33-1) 40-99-40-99
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
American Depositary shares, each representing an Ordinary Share, nominal value euro 1 per share	The Nasdaq National Market
Common Stock, nominal value euro 1 per share	The Nasdaq National Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

Common Stock, nominal value euro 1 per share as of December 31, 2002: **114,570,841**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes x No o

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 o Item 18 x

TABLE OF CONTENTS

Introduction

The companies and brands we discuss in this report include:

Companies	Brands
Dassault Systèmes , which refers to Dassault Systèmes and its subsidiaries	CATIA
Delmia , which refers to Delmia Corp. and its subsidiaries, Delmia GmbH, and Safework , which refers to Safework Inc.	DELMIA
Enovia , which refers to Enovia Corp.	ENOVIA
SmarTeam , which refers to SmarTeam Corporation Ltd. and its subsidiaries	SMARTEAM
SolidWorks , which refers to SolidWorks Corporation and its subsidiaries	SolidWorks
Spatial , which refers to Spatial Corp. and its subsidiaries	ACIS, which is Spatial s main brand. We also refer to the Spatial product family and the SPATIAL brand.
SRAC , which refers to Structural Research & Analysis Corporation and its subsidiaries	3DCOSMOS\

PART I

Item 1: Identity of Directors, Senior Management and Advisors.

Not applicable.

Item 2: Offer Statistics and Expected Timetable.

Not applicable.

Item 3: Key Information.

A. Selected Financial Data.

The following selected consolidated financial data with respect to each of the years in the five-year period ended December 31, 2002 are derived from our consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles.

	Year ended December 31,					
	2002(1)	**2002**	**2001**	**2000**	**1999**	**1998**
	(in millions, except per share data and percentages)					
Consolidated Statement of Income Data						
Revenue:(2)						
Software revenue(3)	$ 770.3	669.9	643.0	541.7	431.5	358.5
Service and other revenue	119.8	104.2	103.1	90.7	73.2	54.9
Total revenue	890.1	774.1	746.1	632.4	504.7	413.4
Cost of revenue:						
Software	(28.1)	(24.4)	(20.8)	(14.9)	(9.8)	(5.0)
Service and other	(110.9)	(96.4)	(86.6)	(75.8)	(58.9)	(44.4)
Total cost of revenue	(138.9)	(120.8)	(107.4)	(90.7)	(68.7)	(49.5)
Gross profit	751.2	653.3	638.7	541.7	436.0	363.9
Research, selling and administrative expenses:						
Research and development	(254.8)	(221.6)	(209.2)	(169.8)	(139.1)	(115.6)
Marketing and sales(4)	(195.1)	(169.7)	(164.3)	(117.5)	(83.8)	(63.6)
General and administration	(55.1)	(47.9)	(44.2)	(35.4)	(28.7)	(23.5)
Amortization of goodwill	0.0	0.0	(44.2)	(29.5)	(13.9)	(2.9)
Amortization of acquired technology and in-process research and development write-offs	(12.8)	(11.1)	(14.2)	(10.7)	(12.3)	(12.0)
Total research, selling and administrative expenses	(517.8)	(450.3)	(476.1)	(362.9)	(277.7)	(217.5)
Operating income	233.4	203.0	162.6	178.8	158.2	146.4
*As a percentage of total revenue**	*26.2%*	*26.2%*	*21.8%*	*28.3%*	*31.3%*	*35.4%*
Financial revenue and other, net	3.22	2.8	14.1	11.0	6.1	6.7
Income before income taxes	236.65	205.8	176.7	189.8	164.4	153.1
Income tax expense(5)	(91.3)	(79.4)	(88.0)	(86.1)	(64.4)	(64.0)
Net income	$ 145.4	126.4	88.7	103.7	100.0	89.1
*As a percentage of total revenue**	*16.3%*	*16.3%*	*11.9%*	*16.4%*	*19.8%*	*21.6%*
Basic net income per share	$ 1.28	1.11	0.78	0.92	0.89	0.80
Diluted net income per share	1.25	1.09	0.76	0.87	0.87	0.78
Weighted average number of shares outstanding	114.1	114.1	113.7	113.0	112.1	111.7

* Operating income or net income, as the case may be, as a percentage of total revenue.

	Year ended December 31,					
	2002(1)	2002	2001	2000	1999	1998
	(in millions, except per share data)					
Supplemental Statement of Income Data:						
Pro forma excluding amortization of intangibles incurred in business combinations(6)						
Operating income	$246.2	214.1	221.0	218.9	184.4	161.3
Net income	$156.4	136.0	144.0	139.2	117.6	100.1
Diluted net income per share	$ 1.35	1.17	1.23	1.17	1.03	0.88

	Year ended December 31,					
	2002(1)	2002	2001	2000	1999	1998
	(in millions)					
Consolidated Balance Sheet Data						
Cash, cash equivalents and short-term Investments	$ 446.6	388.4	369.2	274.2	259.5	240.0
Net working capital(7)	543.4	472.6	411.5	319.2	270.1	232.5
Total assets	1,058.1	920.2	831.4	733.6	581.4	470.1
Long-term and short-term debt	0.0	0.0	0.0	0.0	0.0	0.0
Long-term obligations and current portion of long-term obligations(8)	58.0	50.4	47.2	52.8	51.0	43.3
Capital stock	131.8	114.6	114.5	113.9	113.2	86.1
Shareholders equity	722.5	628.3	550.9	465.7	361.4	264.7

(1) Dollar amounts in this column have been translated solely for the convenience of the reader at a conversion rate of $1.1499 per 1.00, the Noon Buying Rate on May 13, 2003.

(2) Due to the distribution of our products through IBM, as discussed in note 3 below, our revenue and percentage of various expenses and other line items to revenue may not be comparable to those of our competitors. See Item 5A: Operating Results .

(3) More than half of our software revenue is derived from IBM s licensing of our products pursuant to a mutually non-exclusive agreement under which we license our products to IBM, which then sub-licenses them to end-users. See Note P to our consolidated financial statements.

(4) Our marketing and sales expenses are derived from our marketing activities in support of IBM, the SolidWorks sales force, our activities as an IBM Business Partner in France, Belgium, Switzerland and in the United States and from direct sales to customers, notably those of Delmia.

(5) Our effective tax rate, excluding permanent differences related to acquisitions, decreased to 38.6% of income before income taxes in 2002 from 42.9% in 2001.

(6) Amortization of intangibles incurred in business combinations totaled 11.1 million in 2002 (9.6 million after tax) compared with 58.4 million in 2001 (55.3 million after tax) and 40.2 million (35.5 million after tax) in 2000. We believe that this supplemental information is an important indicator of operational strength and performance of our business and is used by analysts, investors and other interested parties. However, operating income, net income and diluted net income per share excluding amortization of intangibles incurred in business combinations is not a U.S. generally accepted accounting principles measurement and should not be considered as an alternative to amounts reported under U.S. generally accepted accounting principles.

(7) Net working capital consists of total current assets less total current liabilities.

(8) Includes financial leases. See Note K to our consolidated financial statements.

Exchange Rate Information.

We publish our consolidated financial statements in euro. Solely for the convenience of the reader, this report contains translations of certain euro amounts into U.S. dollars at specified rates. Unless otherwise stated, the translations of euro into U.S. dollars have been made at the rate of $1.1499 per 1.00, which is the noon buying rate for euro in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on May 13, 2003. These translations should not be construed as representations that the euro amounts represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated or at any other rate.

The following table sets forth, for the period indicated, certain information concerning the exchange rates based on the Noon Buying Rate expressed as U.S. dollar per euro. Such rates are provided solely for the

convenience of the reader and are not necessarily the rates used by us in the preparation of our consolidated financial statements.

Exchange Rates

	Period end	Average(1)	High	Low
1998(2)	0.85	0.90	0.95	0.82
1999	0.99	0.94	1.00	0.85
2000	0.94	0.92	1.03	0.83
2001	0.89	0.89	0.95	0.84
2002	1.05	0.95	1.05	0.86
November	0.99	1.00	1.01	0.99
December	1.05	1.02	1.05	0.99
2003				
January	1.07	1.06	1.09	1.04
February	1.08	1.08	1.09	1.07
March	1.09	1.08	1.11	1.05
April	1.12	1.08	1.12	1.01
May (until May 13, 2003)	1.15	1.14	1.16	1.12

(1) The average of the Noon Buying Rates on the last business day of each month during the relevant period.
(2) A conversion rate of U.S. dollar per euro has been provided for the year 1998, prior to the introduction of the euro on January 1, 1999, by dividing the corresponding French franc exchange rate by 6.55957, the official French franc-euro conversion rate established on July 1, 1999.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

You should carefully consider the risks described below and the other information in this report. If any of the following risks actually materialize, our business, financial condition, cash flows or results of operations could suffer and you could lose all or part of your investment in our shares. The risks described below are not the only ones we face.

Risks Related to Our Business

Current economic, political and business conditions may lead to the continuation of the significant slowdown or reduction in corporate spending on information technology infrastructure, which would cause our revenues and earnings to grow more slowly or decline and increase quarterly fluctuations.

Over the past two years, there has been a continuing slowdown in general economic growth in Europe and the United States. This has led to a continuous slowdown or reduction in corporate spending on information technology infrastructure, including on software applications for product lifecycle management produced by us. Many companies have also deferred decisions on such spending. The different industrial sectors we serve have different degrees of exposure to this slowdown or reduction in corporate investment, both in terms of intensity and timing, due to their specific investment cycles and sensitivities to short-term economic conditions. The combination of the present international political tensions, and the lack of visibility for improvement in the economies of both Western Europe and the United States may further contribute to reduced growth in our revenues and earnings or cause them to decline in these markets. While we have maintained a strong level of sales in the Asia Pacific region, underlying weaknesses persist in Asian economies which could have a negative impact on our business performance.

Currency fluctuations may significantly affect our results of operations since we generate revenue and incur expenses in currencies other than the euro.

Our results of operations can be significantly affected by changes in exchange rates. Exchange rate fluctuations can impact the amount of royalties we receive under our marketing and sales agreement with IBM, the amount of revenue recorded in our statement of income upon translation of other currencies into euro, and the amount of expenses recorded in our statement of income, which are principally in euro but also include significant amounts in U.S. dollars. Since market growth rates for product lifecycle management software applications and the revenue growth rates of our significant competitors are computed based on U.S. dollar revenue, such growth rates from period to period may not be comparable to our euro-computed revenue growth rates for the same periods. Our net financial revenue can also be significantly affected by changes in exchange rates between the time we recognize revenue and receive cash payments or record an expense and pay an expense. Any such differences are accounted for in the Exchange gain/loss portion of our financial revenue. See Item 11: Quantitative and Qualitative Disclosures About Market Risk Foreign currency exchange risk .

Defects or major design errors in our products could harm our reputation and expose us to potential liability.

Sophisticated software often contains errors or defects when first introduced or when new versions or enhancements are released. If errors or defects are discovered in our current or future products, we may not be able to correct them in a timely manner, or at all. Innovative software also requires the use of creative and new technologies, and we may make a major design error in a new product. Any insurance we carry may only partially offset the cost of correcting significant errors, defects or design errors. We may therefore need to expend significant capital resources in order to eliminate or work around errors, defects or design errors. Errors, design problems and defects in our products may result in the loss of, or a delay in, market acceptance of our products, the diversion of development resources, damage to our reputation and, in turn, may increase service and warranty costs. Because errors, defects or other performance problems in our software could result in significant financial or other damage to our customers, our customers could pursue claims against us. A product liability claim brought against us, even if not successful, would likely be time consuming for our management and costly to defend and could adversely affect our marketing efforts.

Our failure to adapt to rapid changes in technology or to develop and introduce new products or enhancements to existing products could seriously reduce the demand for our products and have a material adverse effect on our financial condition and results of operations. The inability or difficulty of our customers to deploy our new products and technologies as they become increasingly complex and pervasive may have a similar consequence.

Product lifecycle management software applications are characterized by rapidly changing technology and frequent new product introductions and product enhancements. As a result, our success is highly dependent upon our ability to enhance our existing products and to introduce new products in a cost-effective and timely manner to meet evolving customer requirements. We have committed substantial resources to the development of new products, but we face the challenge of increasingly complex integration required between our different functionalities to address the PLM opportunity and, as a result, longer and more difficult industrialization work for new releases and products. Since new product development commitments must be made well in advance of sales, however, new product decisions must anticipate both future demand and the technology that will be responsive to such demand. Delays in developing new products with anticipated technological advances or in commencing releases of new products may have an adverse effect on our financial condition and results of operations.

In addition, there can be no assurance that our new products will gain market acceptance. As our products become increasingly complex and offer more global and integrated solutions, software users have a more difficult task adapting their processes to our new solutions and in managing the resulting need to migrate substantial amounts of data. As a result, production deployments and customers investment decisions may be delayed.

During the year 2002, approximately 61% of our revenue resulted from sales of our products by IBM pursuant to a mutually non-exclusive marketing and sales agreement. A decision by IBM to cease or reduce substantially its marketing and sales of our products would have an immediate and material adverse effect on our financial condition and results of operations.

Since our inception in 1981, our CATIA products, since 1998, our ENOVIA products, and since 2001, our SMARTEAM products, have been marketed, distributed and supported principally by IBM pursuant to a mutually non-exclusive agreement that encompasses the marketing, distribution and support of our products. Revenue generated through our distribution agreement with IBM represented 61%, 60% and 65% of our total revenue in 2002, 2001 and 2000, respectively. Under the terms of the agreement, we granted IBM a non-exclusive right to market and distribute CATIA, ENOVIA and SMARTEAM worldwide. IBM markets, distributes and supports our products primarily through IBM PLM, an organization within IBM dedicated primarily to the marketing, distribution and support of CATIA, ENOVIA and SMARTEAM, and through IBM distribution partners. IBM has substantial discretion and control over such marketing and distribution, including the financial resources devoted to marketing, the selection of marketing and distribution channels and the compensation of its sales personnel and agents. Therefore, IBM s decisions and performance with respect to these matters have a material impact on revenue generated from sales of CATIA, ENOVIA and SMARTEAM products.

IBM is under no contractual obligation to continue to market and distribute our products. A decision by IBM to cease or reduce substantially its marketing and distribution efforts would have an immediate and material adverse effect on our financial condition and results of operations, because we may not be able to establish effective alternative distribution methods rapidly, although our recurring revenue stream would not be affected. In addition, establishing such methods would require significant management and financial resources. Furthermore, this agreement does not prohibit IBM to compete with us, to market and distribute other competing product lifecycle management software applications or to acquire or form a strategic alliance with one or more of our competitors, which could have a material adverse effect on our financial condition and results of operations. Finally, should IBM encounter market perception problems that impact its relationship with the market, this could have a direct effect on the sales of our products.

Our failure to adequately protect our intellectual property could harm our competitive market position and have a material adverse effect on our financial condition and results of operations.

Our success is heavily dependent upon proprietary software technology. We rely on a combination of copyright, patent, trademark, trade secret law and contractual restrictions to protect the proprietary aspects of our technology. These legal protections afford only limited protection. In addition, effective copyright, patent, trademark and trade secret protection may be unavailable or limited in certain countries where intellectual property rights are protected less than in the United States or Western Europe. Our failure to adequately protect our technology may lead to the development of similar technology by third parties and reduce our software license revenues. Furthermore, we enter into confidentiality and license agreements with our employees, distributors, customers and potential customers and limit access to and distribution of our software, documentation and other proprietary information. There can be no assurance that the steps taken by us in this regard will be adequate to deter misappropriation or independent third party development of our technology. In addition, like most of our competitors, we are facing an increasing level of piracy of our successful products, both by individuals and by groups acting worldwide.

Litigation may be necessary to enforce our intellectual property rights and to determine the validity and scope of the proprietary rights of others. Any litigation could result in substantial costs to us and diversion of our resources and could seriously harm our operating results. We may not prevail in any such litigation and our intellectual property rights may be found invalid or unenforceable.

Claims that our products infringe the proprietary rights of others could harm our sales and increase our costs and, as a result, have a material adverse effect on our financial condition and results of operations.

Other companies or individuals, including our competitors, may have or obtain copyrights, patents or other proprietary rights that could prevent, limit or interfere with our ability to make, use or sell our software. Furthermore, companies in the software market are increasingly bringing suits alleging infringement of their proprietary rights by others, particularly patent rights. As a result, in such circumstances, a court may decide that we have infringed on the proprietary rights of others. We have received, and may in the future receive, communications alleging possible infringement by us of patents and other intellectual property rights of others. We could incur substantial costs to defend any litigation brought against us, regardless of its merits, and our failure to prevail in intellectual property litigation could force us to do one or more of the following:

cease making, licensing or using products or services that incorporate the challenged intellectual property;

obtain and pay for licenses from the holder of the infringed intellectual property right, which licenses might not be available on acceptable terms, if at all; or

redesign our products, which could involve substantial costs and require us to interrupt product licensing and product releases, or which might not be feasible at all.

If any of the above situations were to occur for a significant product, it could have a material adverse effect on our financial conditions and results of operations.

Future acquisitions may adversely affect our business or financial performance as a result of, among other things, our inability to integrate such other businesses, products or technologies with our existing business, products and technologies.

We continue to seek opportunities to acquire, or merge with, related businesses and are presently evaluating, as we do on a regular basis, potential opportunities. If we acquire another company or business, there can be no assurance that we will be able to successfully integrate any such other business into our operations or that the integration of such other business will not materially limit the amount of time that management may devote to the running of our day-to-day business. It also cannot be predicted with certainty whether the financial markets will support any such acquisition. In addition, due to regulatory constraints in Europe and in the United States, a planned acquisition might not be realized at all or as anticipated. Further growth in our operations from additional businesses may strain our management resources and financial and management systems and controls and may require that we make additional expenditures in such areas. In addition, future acquisitions may require us to use significant financial resources, to make potentially dilutive issuances of equity securities, to incur debt and to incur amortization expenses related to intangible assets other than goodwill and may generally reduce our operating margin or net income. Goodwill generated by these transactions will be subject to annual or more frequent impairment tests, which may also reduce our operating margin or net income. Acquisition of minority interests might also have to be written off or devalued in our accounts.

Declining unit prices and increased productivity of product lifecycle management software applications could negatively impact revenue growth.

As is common in high technology industries, our market is characterized by selling prices which have tended to decline for existing products over time due to competition, low marginal costs and rapid technological change. In addition, the increased productivity of our product lifecycle management software applications may result in our customers requiring fewer workstations. If we are unable to maintain a sufficiently increasing volume of customer workstations, the potential decline in selling prices would have a negative effect on our operating results.

A high proportion of our total revenue is derived from product licenses to customers in the automotive sector and the aerospace sector. Reduced demand for product lifecycle management software applications from these sectors could have a material adverse effect on our financial condition and results of operations.

Our products are licensed to customers in a number of industry sectors, but approximately half of our product revenues are derived from the automotive and the aerospace sectors, which accounted for 35% and 16%, respectively, of our consolidated sales in 2002. As a result, our future success will depend not only on our ability to increase our market presence in new segments but also, in part, on our ability to maintain and increase product licensing to the automotive and aerospace sectors, mainly to subcontractors, while broadening the applications base of our products. There can be no assurance that we will achieve these objectives.

Since we have multinational operations, we are subject to certain risks, inherent in international operations that could adversely affect our financial condition and results of operations.

As a global participant in the product lifecycle management software applications industry, our business is subject to certain risks inherent in international operations that are beyond our control. These risks include:

tariffs, duties, export controls and other trade barriers;

unexpected changes in regulatory requirements and applicable laws;

the burdens of complying with a wide variety of foreign laws and regulations; and

political and economic conditions.

Any of these factors could harm our operating results. There can be no assurance that we will not experience material adverse effects with respect to our international operations and sales.

Our research and production facilities are subject to risks of damage or temporary loss due to both system interference or breakdown and physical harm. The short- or long-term loss of the use of these facilities could have a material negative impact on our business, results of operations and financial condition.

Our research and development facilities are computer-based and rely on the proper functioning of complex software and integrated hardware systems. However, it is not possible to guarantee the uninterrupted operation and security of these systems. For example, the invasion of our computer-based systems by either computer hackers or industrial pirates could interfere with their proper functioning and cause substantial damage, loss of data or delays in on-going research and production activities. Computer viruses, whether deliberately or unintentionally introduced, could also cause similar damage, loss or delays. As many of our systems include advanced or state-of-the-art functionalities, computer bugs or design errors could cause malfunctions. In addition, because our research and production facilities are located in five principal sites, including our headquarters outside Paris in a possible flood zone and our SmarTeam site in Israel, substantial physical damage to any one of our sites, by natural causes or by attack or local violence, could materially reduce our ability to continue our normal business operations. If any of these circumstances were to arise, the resulting damage, loss or delays could have a material negative impact on our business, results of operations and financial condition.

If we are unable to hire or retain our key personnel and executives, or if we experience difficulties in our employee relationships generally at one of our major sites, our business activities and operating results may be negatively affected.

Our success depends to a significant extent upon, among other factors, the continued service of our key managers and highly qualified research and development, technical, support and other personnel, and on our ability to continue to attract, retain and motivate qualified personnel. The competition for such employees is intense, and if we lose the ability to hire and retain key employees and executives, it could have a material adverse effect on our business activities and operating results. Similarly, we have various important sites, located in different countries, and serious difficulties in our employee relationships generally at any such sites could also have a negative effect.

Our products have a long and variable sales cycle which makes it difficult to predict if and when a sale will occur.

Our products have a long sales cycle, which is typically between six and nine months in duration. The reasons for the long sales cycle include the following:

customers frequently begin by evaluating our products on a limited basis;

customer purchase decisions typically require lengthy budgeting, planning, approval and competitive evaluation processes that accompany significant capital expenditures; and

customers may defer orders in anticipation of releases of new software or enhancements by us or our competitors.

As a result of the long sales cycle, we may face situations where customers postpone their decision to buy, thus reducing our ability to forecast accurately.

We expect that our quarterly operating results will fluctuate and this could cause our stock price to fluctuate.

Our quarterly operating results have varied significantly and are likely to vary significantly in the future, depending on factors such as:

the number, timing and significance of product enhancements or new products by us or our competitors;

our ability to develop, introduce and market new and enhanced versions of our products and customer order deferrals in anticipation of new or enhanced products introduced by us;

the timing of revenue recognition under our marketing and sales agreement with IBM;

fluctuations in foreign currency exchange rates; and

general conditions in the product lifecycle management software applications and computer industries and regional economies.

We may also experience greater fluctuations in our quarterly results, since customer decisions to invest in our products may be affected by short-term economic, political and business conditions.

A substantial portion of our orders and shipments typically occur in the last month of each quarter. Therefore, the timing of orders and shipments, including unexpected delays or actions taken by competitors in reducing prices or introducing new products, could result in significant quarterly fluctuations in our results of operations. Additionally, as is typical in the software applications industry, we have historically experienced our highest licensing activity for the year during the month of December. Our software revenue, total revenue, operating income and net income have generally been lower in the first quarter of a given year than in the fourth quarter of the preceding year.

The trading price of our shares and the ADSs may be subject to wide fluctuations in response to quarterly variations in our operating results and the operating results of other product lifecycle management software applications developers. In addition, capital markets around the world experience from time to time extreme price and volume fluctuations, which may particularly affect the market prices for many high technology companies which have become highly volatile.

Because we rely on IBM to provide us information as to the level of sales of a significant portion of our revenue, we generally are not in a position to know our revenue for any particular period within the same timeframe as would otherwise be possible. As a result, we may not be able to confirm or adjust expectations as to sales achieved for a particular period as quickly as we otherwise could, or within the same timeframe as some other companies in our industry.

As a result of our strategy of partnering with other companies for product development, marketing and services, our products and business development could be adversely affected if we experience difficulties with our partners.

Our product lifecycle management strategy requires fully integrated solutions of CAD/CAE/CAM/PDM products, which are themselves increasingly complex. To implement our PLM strategy, we have chosen to partner with other companies: in product development, to integrate other software components; in marketing, to integrate in our offer complementary products made by other software providers; and in services, to provide adequate support for customers adapting and deploying product lifecycle management solutions. We believe that our partnering strategy allows us to reduce costs while achieving broader market coverage. Nevertheless, our broad partnering strategy creates a higher dependency on such partners. Serious difficulties in our relationships with our partners, or an unfavorable change of control of our partners, may adversely affect our products or business development.

Risks Related to an Investment in our Shares or ADSs

Groupe Industriel Marcel Dassault owns approximately 45% of our outstanding shares, and can therefore effectively determine shareholders decisions.

Groupe Industriel Marcel Dassault (GIMD), which represents the interests of some of our founding shareholders, has maintained its substantial interest in Dassault Systèmes and currently owns 45% of our outstanding shares and controls approximately 42% of the voting rights. As a result, GIMD continues to effectively decide matters submitted to our shareholders for approval, including the election and removal of directors and the approval of any merger, consolidation or sale of all or substantially all of our assets.

Technology-related stock prices have generally been volatile, and this volatility may depress our stock price.

The market price of our shares and ADSs is likely to be highly volatile, as the market for shares of technology companies have generally been more volatile than the stock market overall. A large number of technology companies have reached a market price significantly inferior to their historical highest market price.

The price of our ADSs and the U.S. dollar value of any dividends will be affected by fluctuations in the U.S. dollar/euro exchange rate.

The ADSs are quoted in U.S. dollars. Fluctuations in the exchange rate between the euro and the U.S. dollar are likely to affect the market price of the ADSs. For example, because our financial statements are reported in euro, a decline in the value of the euro against the U.S. dollar would reduce our earnings as reported in U.S. dollars. This could adversely affect the price at which the ADSs trade on the U.S. securities markets. Any dividend we might pay in the future would be denominated in euro. A decline in the value of the euro against the U.S. dollar would reduce the U.S. dollar equivalent of any such dividend.

Market anticipation of an offering by the French State of its interest in Dassault Systèmes could have a material negative impact on our market price.

The French State currently holds 15.6% of our capital stock. In the event the French State confirms its intention to divest its interest in Dassault Systèmes, the market price of our shares and ADSs may temporarily decline. It is not possible to predict with certainty the extent or duration of such a decline in market price.

Holders of ADSs may face disadvantages compared to holders of our shares when attempting to exercise voting rights. Holders of shares wishing to exercise their voting rights must block their shares for at least five days prior to the shareholders meeting pursuant to French law.

In order to vote at shareholders meetings, ADS holders who are not registered on the books of the depositary are required to transfer their ADSs for a certain number of days before a shareholders meeting into a blocked account established for that purpose by the depositary. Any ADS transferred to this blocked account

will not be available for transfer during that time. ADS holders who are registered on the books of the depositary must give instructions to the depositary not to transfer their ADSs during this period before the shareholders meeting. ADS holders must therefore receive voting materials from the depositary sufficiently in advance in order to make these transfers or give these instructions. There can be no guarantee that ADS holders will receive voting materials in time to instruct the depositary to vote. Also, the depositary is not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. It is possible that ADS holders, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote at all.

In order to participate in any general meeting, a holder of shares held in registered form must have its shares registered in its name in a shareholder account maintained by us or on our behalf by an agent appointed by us at least five days prior to the date set for the meeting. A holder of bearer shares must obtain a certificate from the accredited intermediary with whom the holder has deposited its shares, and the certificate must state that the shares are not transferable from five days before the meeting until the completion of the meeting.

Preemptive rights may be unavailable to holders of our ADSs.

Holders of our ADSs may be unable to exercise preemptive rights granted to our shareholders, in which case holders of our ADSs could be substantially diluted. Under French law, whenever we issue new shares for payment in cash or in kind, we are usually required to grant preemptive rights to our shareholders. However, holders of our ADSs may not be able to exercise these preemptive rights to acquire our shares unless both the rights and the shares are registered under the Securities Act of 1933 or an exemption from registration is available.

If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case an ADS holder will receive no value for these rights.

Because we are subject to both French and U.S. securities regulations and disclosure requirements, we may experience difficulties in ensuring timely compliance with their complex, rapidly evolving and occasionally contradictory norms, which could result in harm to our reputation or the imposition of regulatory sanctions.

Our stock is listed on both the Nasdaq Stock Market s National Market and Euronext Paris. As a result, we must comply with the securities regulations, disclosure requirements and accounting standards of two different systems. In both France and the United States, the legal environments for public companies are highly complex. They continue to evolve quickly and substantially, and requirements are occasionally contradictory or ambiguous. At times, new requirements are established relatively shortly before they are to be given effect, leaving little time to ensure their proper implementation or their integration into our internal information system. We expend substantial management and financial resources to achieve compliance. In the event we are found not to be in full compliance, we may experience damage to our reputation and we may be subject to regulatory sanctions.

Special Note Regarding Forward-Looking Statements

Some of the statements under Item 3D: Risk Factors , Item 4B: Business Overview , Item 5A: Operating Results , Item 5D: Trend Information Outlook and elsewhere in this report constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties, and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activities, performance, or achievements expressed or implied by such forward-looking statements. Some of these factors are listed under Item 3D: Risk Factors beginning on page 3 and elsewhere in this report. In some cases, you can identify forward-looking statements by terminology such as believe , may , will , predicts , potential , or continue or the negative of such terms or other comparable terminology. These statements are only expectations. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this report include, but are not limited to:

market demand for our products and services;

new product developments and technological changes;

global economic conditions;

competition;

our ability to recruit and retain skilled personnel; and

currency fluctuations.

You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent that as a result of fulfilling our disclosure obligations under the U.S. securities laws and regulations, we determine that such an update is necessary.

Item 4: Information on the Company.

A. History and Development of the Company.

Dassault Systèmes is a *société anonyme*, a form of limited liability company, incorporated under the laws of France. Our company was created on June 9, 1981 for a duration of 99 years and is governed by the French *Code de Commerce* and the regulations promulgated thereunder. The registered office is located on 9 Quai Marcel Dassault, 92150 Suresnes, France, and the telephone number is: 33 (0)1 40 99 40 99. For a list of our significant subsidiaries, please refer to Item 4C: Organizational Structure below. Dassault Systèmes is registered in the Nanterre Commercial Register under No. 322 306 440.

We are a provider of software solutions for the Product Lifecycle Management market using three-dimensional (3D) digital technology. Our strategic mission is to create and deliver world-class software solutions to enable our customers to continuously improve their competitiveness in the design, manufacturing and maintenance of their products by leveraging the power of 3D. Our first product line was CATIA for 3D product design, through which we established a strong market position in the aerospace and automotive industries.

Our growth strategy is primarily designed to (i) broaden the software solutions we offer to our customers in order to provide complete, end-to-end Product Lifecycle Management software solutions for design, digital manufacturing and collaboration, (ii) address multiple market segments within the 3D design market, with both our Process-centric and our Design-centric software solutions and (iii) expand our presence in our target industrial sectors. In part to achieve the growth strategy, we have made a number of strategic acquisitions over the years and expect to continue to do so in the future.

Our Product Lifecycle Management software includes CATIA for product design, DELMIA for digital manufacturing and ENOVIA and SMARTEAM for Product Data Management. DELMIA was formed in 2000 and is comprised of Delmia Corp., a company that specialized in robotic simulation that we purchased in 1997, as well as Safework Inc., a Canadian company that specialized in human modelling technology, and Delmia GmbH, a German supplier of digital manufacturing processes software, both of which we purchased in 2000. ENOVIA was created in 1998 when we acquired the Product Management Development laboratory from IBM, and SMARTEAM was formed in 1999 following the purchase of SmarTeam Corporation Ltd. In 1997 in connection with the acquisition of SolidWorks, we introduced the concept of Process-centric and Design-centric 3D design markets, with CATIA as part of the Process-centric market and SolidWorks for the

Design-centric market. In 2000 SPATIAL was formed following the acquisition of the 3D software component business division of PlanetCAD, which included the ACIS modeler technology and business.

We market our solutions through IBM, our strategic partner since our inception in 1981, a network of distribution partnerships and a direct sales force for certain products. Our partnership with IBM is for the marketing, distribution and support of most of our products. Over the years, our partnership with IBM has been reinforced and has kept pace with changes in both our markets and products. We have extended our strategic alliance with IBM to better address the needs of customers for digital enterprise solutions and collaboration solutions. In 2002 we entered into a new agreement to significantly increase the marketing and sales resources dedicated to our PLM products.

We have been listed on Euronext Paris and the Nasdaq Stock Market s National Market since our initial public offering in 1996.

For a detailed discussion of our 2002 Highlights, see Business Overview below.

B. Business Overview.

We believe that we are the global leader of the market for Product Lifecycle Management (PLM) software with a market share of approximately 21% (source: Daratech). Our software applications and services enable corporations to define, simulate and optimize manufactured goods as well as the manufacturing processes and means required to produce and maintain products across their complete lifecycles by leveraging the power of 3D.

Our software applications enable businesses to increase innovation, reduce time to market and reduce costs, as well as better integrate their product creation process with the needs of their customers. Through the creation of a collaborative environment, a broad range of persons involved in a product s lifecycle can share, modify, manage and archive complete data about the product and its production use and maintenance on an integrated information platform. Using advanced modeling technologies, including highly sophisticated 3D visualization and Internet technology, our products allow engineers, manufacturing teams, financial planners and other participants to simulate product behavior and manufacturing operations through virtual prototypes rather than actual physical mock-ups, thereby saving significant time and resources.

We pursue two objectives through our products. The first is to enable people to create innovative products and simulate the whole product lifecycle to preserve the environment for the future. The second is to allow the broadest array of users to take advantage of 3D as the most intuitive means of working and communicating on industrial products.

We organize our business and market our products and services according to customer requirements for two types of applications: the Process-centric market , in which customers need to support product development, production and maintenance; and the Design-centric market , in which customers need to support product design. Our Process-centric products are organized under our flagship CATIA brand for product engineering (CAD/CAM/CAE), our DELMIA brand for digital manufacturing process management, our ENOVIA and SMARTEAM brands for virtual product synthesis, collaboration and product lifecycle integration and our SPATIAL brand that provides PLM software development environments and 3D solid modelers. Altogether, these brands form our PLM offer and are hereafter referred to as our PLM software applications . Our Design-centric products and services are offered under the SolidWorks brand.

Our software applications serve enterprises of all sizes worldwide to create, produce and service products ranging from individual machine parts to automobile engines to entire ships, manufacturing plants and commercial aircraft. The primary applications for our products are in seven industrial sectors: automotive, aerospace, fabrication and assembly, consumer goods, electrical and electronics, plant design and shipbuilding.

The execution of our strategy has encompassed the creation and growth of an extended enterprise model since our inception in 1981. We have developed a network of partnerships and alliances for marketing, product development and enhancement of customer relations, and we intend to continue to build on our extended enterprise model. Our key alliance has been, and continues to be, with IBM, our strategic partner of 22 years,

particularly with respect to sales, marketing and technical collaboration. In addition to IBM, we market our solutions through a network of distribution partners and a direct sales force for certain products. Through customer partnerships, we establish a permanent dialogue between our customers and our research and development teams in order to ensure responsiveness to market needs. We operate competency centers that collaborate with numerous industry leaders to develop consulting methodologies and best practices with the aim of improving the introduction and deployment of our PLM solutions in response to the increasing demand for expertise and optimization of processes.

Technological strength has underpinned our market success. Our latest generation software platform for the Process-centric market, Version 5 (V5), enables us to deliver integrated PLM solutions. These solutions have been engineered to optimize industry specific business processes end-to-end. This approach is the result of considerable investment made in working with our customers to understand the processes required within each of the industry sectors that we serve and then delivering capability that enables an optimized or next generation process. V5 solutions are engineered to provide collaborative workspaces by sharing a common product, process, and resource (PPR) model across CATIA, DELMIA and ENOVIA. The PPR model also allows companies to capture, share and reuse knowledge throughout the entire product lifecycle, while the open architecture provided by V5 allows extension and integration of our solutions according to each company s specific needs.

Designed specifically for Windows, our technology for the Design-centric market is based on enabling designers and engineers to make an easy transition from 2D drafting tools to a 3D solid modeling environment. Its intuitive Windows user interface enables users to productively employ SolidWorks software without extensive training. SolidWorks applications provide users with a 3D design process, for which a fully detailed solid model is used to quickly produce drawings and perform downstream design functions. SolidWorks focuses on three core capabilities: design, analysis and product data management. SolidWorks software is an open system that allows independent software developers to create complementary products that can be integrated with SolidWorks, thereby significantly increasing the range of functions and capabilities that can be offered to customers.

Headquartered in France, we have a strong international presence. In Europe/ Middle East, in addition to France, we have facilities in Belgium, Germany, Israel, Italy, Netherlands, Spain, Sweden, Switzerland and the United Kingdom. In the Americas, we have major subsidiaries headquartered in the United States and Canada and we have offices in Argentina, Brazil and Mexico. And in Asia, we have offices in Hong Kong, India, Japan, Singapore and South Korea. Moreover, through our strategy of the extended enterprise we have an even broader reach around the world through our partnerships in sales, marketing and technology.

Our consolidated revenue for 2002 was 774 million, representing an increase of 4% over 2001. On a constant currency basis, our consolidated revenue increased 7% over 2001. In 2002, 48% of our total revenues were derived from Europe, 29% from the Americas and 23% from Asia. At December 31, 2002, we employed 3,966 people worldwide.

2002 Highlights

Major Projects and Customer Developments

HINTERKOPF In January 2002, Hinterkopf, a pioneer in employing automation to streamline production of aluminum cans, and aluminum and plastic tubes announced that they will use SolidWorks, COSMOSMotion and SMARTEAM software to design the automatic production lines that make everything from plastic toothpaste tubes to aluminum aerosol cans used around the world. This will allow Hinterkopf engineers and designers to easily create and refine large assemblies so they can reduce design time and quickly bring their production systems to retail manufacturers.

LOCKHEED MARTIN In March 2002, Lockheed Martin, a major defense contractor, announced that it had selected CATIA and DELMIA solutions for the development of the next generation advanced military aircraft, the Joint Strike Fighter (JSF). Lockheed Martin has set aggressive goals for reducing product cost, development time, and manufacturing and product support span times to gain a significant

competitive advantage in worldwide aircraft manufacturing, modification and maintenance. The JSF team intends to meet these goals by integrating the design and manufacturing environments using CATIA and DELMIA solutions.

TOYOTA In March 2002, IBM and Dassault Systèmes announced the signing of a strategic agreement with Toyota Motor Corporation, to build a world-class collaboration around PLM solutions covering end-to-end vehicle development processes. Based on the new Version 5 Product Suite CATIA for design, ENOVIA for collaboration, and DELMIA for digital manufacturing the transformation will cover end-to-end vehicle development processes worldwide.

EADS In June 2002, EADS, a major aerospace and defense group, announced that they will migrate from CATIA V4 to CATIA V5 for virtual product design coupled with ENOVIA collaborative product data management solutions. EADS has selected CATIA V5 for all development, construction and production across its divisions worldwide, including EADS Military Aircraft, Eurocopter, Astrium, EADS Launch Vehicles, and EADS CASA. EADS is taking this strategic PLM-based approach to improve collaboration, product innovation, management of product-related processes, and dissemination of product information, not only to achieve cost reductions, but also to promote innovation and other value driving processes.

PRATT & WHITNEY CANADA In October 2002, Pratt & Whitney Canada announced their selection of PLM solutions centered on CATIA V5 and ENOVIA to develop new engines using digital technology. Through its Digital Engine initiative, Pratt & Whitney Canada s goal is to become the first company in the aerospace industry to develop engines using digital technology throughout the entire design and manufacturing process.

L OREAL In October 2002, L Oréal announced that one of the biggest challenges to date facing L Oréal scientists was the difficulty of creating a clear and concise three-dimensional image of the hair follicle. With CATIA V5, they can now create mock-ups or virtual models and visualize in 3D the relative position of the different components of this part of the body. The benefits are both educational and scientific.

AIRBUS In October 2002, Airbus announced that they have successfully completed the first phase of a plan to streamline product development using CATIA V5. Airbus stated that, in less than 18 months, more than 50% of Airbus CAD activity migrated to CATIA. The second phase of the innovation strategy calls for the installation of more than 2,000 CATIA seats and the integration of Airbus entire design, development and manufacturing processes.

ELECTROLUX In October 2002, IBM and Dassault Systèmes announced that the Electrolux Group, a leading producer of powered appliances for kitchen, cleaning and outdoor use, has selected CATIA V5 for the design, analysis and manufacture of its products. Electrolux also announced the recently completed implementation of SMARTEAM at its U.S. manufacturing facilities. Electrolux leverages the product design technology of our PLM solutions to optimize its products style and shape, key drivers of household appliance sales.

EDAG In December 2002, EDAG, with more than 3,600 employees worldwide offering vehicle development expertise, announced the signing of a software contract covering company-wide design software migration. More than 500 seats of CATIA V5 will be deployed at EDAG, further advancing the company s corporate strategy to develop all of its products digitally before manufacture, in order to give its customers innovative, high quality merchandise quickly and at a competitive price.

HOLLAND In January 2003, the Holland Group, a manufacturer of fifth wheel truck couplers, announced that they will standardize on SolidWorks software. This will allow the Holland Group to deliver new products to customers much faster by cutting design cycles from years to months.

FORD In February 2003, IBM and Dassault Systèmes announced that they have been selected by Ford Motor Company to supply and integrate their most advanced PLM solutions, including CATIA V5 and ENOVIAVPM software, into the automaker s design and manufacturing processes worldwide. Ford will integrate these solutions into its next generation C3P (PLM) systems environment across the company.

Brand and Product Developments

V5R8 Targeted for Full Enterprise Deployment Announced in February 2002, CATIA, DELMIA and ENOVIA V5R8 deliver process coverage and integration levels that meet and surpass the needs of leading companies in most manufacturing industry sectors. CATIA V5R8 incorporates major improvements to existing products and introduces 23 new products. Our Entry PLM solution was significantly reinforced as a cost-effective solution for all companies ready to move from their previous generation CAD/CAM/CAE solutions towards CATIA V5 for greater productivity. DELMIA V5R8 brought important improvements for process planning, 3D process detailing, 3D process simulation and validation and factory flow optimization. ENOVIA V5R8 delivered enhanced CATIA V5 interoperability and added richer PLM process support, extended supply chain collaboration solutions and new open PLM middleware.

V5R9 Makes Product Morphing a Reality Announced in June 2002, CATIA, DELMIA, ENOVIA and SMARTEAM V5R9 deliver a set of business practices for breakthrough product morphing , which automatically combines existing design data and templates with new specifications to form an original, full-featured product and production systems design. Morphing draws on next-generation reuse of design data and knowledge to dramatically accelerate product and production system developments and maximize capitalization of past experience. Interoperability with multiple computer-aided design product data management and other business systems has been enhanced to accelerate deployment and integration within existing solution environments.

V5R10 Connected by Knowledge Announced in October 2002, CATIA, DELMIA, ENOVIA and SMARTEAM V5R10 are characterized by the unmatched level of integration achieved across the portfolio, as well as the resulting knowledge exchange and high-value business interaction it enables between customers. Small and medium-sized businesses using CATIA with SMARTEAM can now deploy PLM best practices. V5R10 pushes PLM integration past traditional interoperability to include high-value Knowledge. Beyond simply sharing results (that s what I did), customers can now share understanding, intent, know-how, and configured product structures across all PLM solutions (that s what I did and here s how and why I did it). This creates new levels of collaboration efficiency. The reuse best practice introduced in V5R9 as morphing is now expanded from product and production resources to manufacturing processes. Combined with paperless shop floor capabilities, this enhancement makes product and process development more concurrent than ever. V5R10 offers seamless integration with additional software partner applications to further grow solution coverage as well as create highly specialized PLM solutions for specific industries.

V5R11 Built-in Reality Announced in April 2003, CATIA, DELMIA, ENOVIA and SMARTEAM V5R11 are characterized by the high value-added capabilities V5R11 delivers to create realistic, effective PLM solutions. Built-in Reality denotes the exceptional level of realism attainable in product and process anticipation provided by this new release and is achieved through five concepts: (1) Predictive PLM What will a product sound like? How will it age? Through significant enhancements in CAE analysis and new partner solutions that take into account the physics of materials, V5R11 enables customers to better simulate the functioning of a future product and hence reduce the risk of potential problems. (2) Engineering of Emotion V5R11 offers new tools to engineer the emotional content of a product with improvements in Class A surfacing, a novel approach for virtual clay modeling, and a light Digital Mockup Navigator for broader appearance testing with marketing specialists, customers, and end-users. (3) Secure IP Circulation V5R11 delivers enhanced security and authentication mechanisms for intellectual property within collaboration and collective decision-making processes. (4) PLM for All V5R11 offers strengthened entry PLM for companies or departments across all industries that are considering upgrading from 2D design practices with the option of directly embracing true PLM. (5) Experience into Advantage PLM deployment know-how leveraged into competitive lead for core processes. V5R11 delivers the benefits of Dassault Systèmes and IBM s extensive experience in deploying PLM solutions to industry-leading companies.

Spatial. In May 2002, Spatial became the primary channel for sales and marketing of our CAA V5 to software developers. The intention is to utilize Spatial as a distribution point for development technologies to accelerate the development of value-added third-party applications based on the CAA V5 platform. In May

2002, Spatial also announced 3D ACIS Modeler (ACIS) Version 8.0 that addresses more customer issues than any other release of ACIS to date by delivering significant improvements in performance, tolerant modeling, versioning, and faceting functionality as well as support for the Intel Itanium and Solaris 64-bit platforms.

SolidWorks. In September 2002, SolidWorks announced its new product line, SolidWorks 2003, which features many new enhancements that help users analyze their design s structural integrity, easily communicate design information to others, locate downloadable parts via online supplier catalogs and accelerate the design process with new modeling features. New analysis capabilities help designers and engineers get the design right the first time, sparing them the time and cost of fixing production errors. New import capabilities help users embrace 3D and integrate third-party part designs into their CAD files, so they can finish designs quickly by working with a variety of file formats including AutoCAD and CADKEY. In addition, SolidWorks 2003 marks the first Design-centric 3D CAD software that lets users simulate realistic motion so they can easily check how gears in an assembly, for example, will function in actual operation and address any design flaws prior to manufacturing.

Mergers and Acquisitions

KTI acquisition. On November 20, 2002, we acquired privately-held, Knowledge Technologies International (KTI). Through its consulting expertise and its ICAD software, KTI has been a pioneer and leader in knowledge-based engineering solutions for the capture and automation of proprietary customer design and manufacturing processes, particularly in the aerospace and automotive industries. The acquisition of KTI complements our existing V5 Knowledgeware solutions and we believe better positions us as a leader across the full range of knowledge-based engineering solutions, including customer proprietary process automation, generic applications and industry-specific solutions. We also believe this acquisition strengthens our knowledge-based services offerings.

Partnerships and Alliances

Sales and distribution alliances. Since June 2000, IBM has established an organization, known as IBM PLM, for marketing PLM products and services exclusively dedicated to our solutions. This creates a stronger platform for marketing CATIA, ENOVIA, DELMIA and SMARTEAM with two specific channels to manage large accounts and small and medium-sized accounts.

In July 2002, we entered into an agreement under which IBM agreed to significantly increase resources in sales and marketing, with the goal of reaching a 40% increase in direct sales resources within a three-year timeframe.

In June 2002, RAND Worldwide™, a leading software distributor based in North America, joined the IBM network as a distributor of our PLM products.

SolidWorks added coverage in the U.S. and continued to broaden its channel throughout the world with close to 300 resellers.

Customer partnerships. We continued active development of customer partnerships to specify, evaluate and test process-oriented applications. We also organized user groups and forums to allow customers to share their experience. Over 10,000 people attended such forums around the world in 2002.

Technology partnerships. In February 2002, we announced the signing of a global strategic alliance to leverage IBM s Websphere middleware with ENOVIA solutions. This technical combination fosters integration of 3D product content and knowledge atop a robust technology infrastructure.

Our strategic development alliance with Microsoft was further enhanced in 2002, with both CATIA V5 and SolidWorks being certified Designed for Microsoft Windows XP and the demonstration of CATIA V5 at the introduction of Microsoft s Windows XP Tablet PC Edition. By using Tablet PCs, product designers and engineers can extend the functionality and usage of CATIA V5 far beyond the office.

Application providers alliances. The Software Community Program (SCP) was launched in July 2001 to provide independent software vendors with the open next-generation V5 Component Application Architecture (CAA V5) and with comprehensive support to deliver best-in-class PLM applications to the market that are fully integrated and complementary to CATIA, ENOVIA and DELMIA V5. By February 2003, or 20 months after its launch, 135 products based on CAA V5 have been introduced on the PLM market by 37 independent software developers through the SCP program. Companies which have joined the SCP program in 2002 or early 2003 include: REALVIZ, INCAT, TransCAT, Famotik, Hitachi Zosen (HZS), ICAM, SAMTECH, Vision Numeric, 3Dconnexion, FTL, RAND Worldwide, Nihon Unisys, HKS, Mecalog, Sigmetrix, ImpactXoft, Polysoft, Immersion and ESI.

In September 2002, we announced a strategic alliance with ImpactXoft to deliver advanced design collaboration solutions and functional modeling applications within V5. This alliance includes the signing of a software component agreement and a $10 million equity investment by us, representing a 15% equity interest in ImpactXoft on a fully diluted basis. The alliance will leverage ImpactXoft s awarding-winning IXSPeeD technology with Version 5 to deliver and market innovative applications that will target Process-centric applications for the Electrical & Electronics, Consumer Goods, and Fabrication and Assembly industries.

In 2002, 46 products from 31 SolidWorks partners had achieved Certified Gold status. Gold Products are software applications developed by partners, and tested and certified by SolidWorks to ensure high quality, integration and interoperability with SolidWorks software thereby delivering a higher degree of productivity to our customers. These products are part of the more expansive SolidWorks Partner program that includes over 400 companies worldwide.

Systems integrators alliances. In January 2002, we announced a significant strengthening of our relationship with IBM Global Services (IGS), and namely with its Business Consulting Services division, with the aim of accelerating the benefits of our PLM solutions for customers through the offering by IGS and ourselves of business practices, methodologies and implementation services in the product lifecycle management field.

In June 2002, we announced a Consulting & Services partnership with Volvo Information Technology AB (Volvo IT), to jointly supply Nordic industries with consulting services focusing on process development, project management, systems integration, training, operations and infrastructure for PLM solutions. A wide range of industries is targeted, including automotive, industrial machinery and high-tech industry.

In July 2002, we announced a partnership with T-Systems, the professional services arm of the Deutsche Telekom Group, to develop an international Consulting and Services Partnership around our PLM solutions. The partnership will leverage T-Systems strength in planning, building and running complex solutions, based on information and telecommunications technology.

In October 2002, we announced a partnership with Axiom Systems who will provide our North American aerospace, automotive, consumer goods, and shipbuilding customers with integrated solutions for developing products and managing their lifecycle. Axiom Systems offers a wide range of services such as business process analysis, systems integration, software application customization, and project management.

Market Structure and Brands

We currently organize our business and market our products and services principally according to customer requirements for two types of applications: the Process-centric market , in which customers need to support product development, production and maintenance, and the Design-centric market , in which customers are primarily focused on product design. In 2002, our Process-centric business represented 84% of our consolidated revenue and our Design-centric business represented 16% of our consolidated revenue. Our coordinated product offering in each market provides users with advanced 3D modeling capabilities and a unique opportunity to integrate different PLM functions within the Process-centric market.

Process-centric market

The Process-centric market focuses principally on product lifecycle management applications to create and simulate the entire product lifecycle from initial concept to product in service. We serve it with our PLM offering which facilitates the simultaneous collaboration of the many different functions involved in product lifecycle management: engineering, strategy, marketing and sales, planning and production, procurement, finance and human resources as well as throughout the supply chain with our Entry PLM solutions. We believe that our PLM applications help businesses unleash creativity and innovation, reduce development cycle time, store and share product knowledge and ultimately improve quality and competitiveness.

PLM products. We serve the Process-centric market by principally offering the following products:

CATIA, which defines the digital product and supports product design, development and simulation;

DELMIA, which defines and simulates digital manufacturing processes;

ENOVIA, which manages product lifecycle information, including digital mock-up configuration, processes knowledge and resources information;

SMARTEAM, which manages product data information; and

SPATIAL, which provides PLM software development environments and 3D solid modelers and visualization components.

CATIA is our main software product line. Since 1999, we believe CATIA has been the most popular product design and simulation system in the world through wide adoption of the digital mock-up process by the market. Initially focused on large enterprises, CATIA has evolved to a scalable solution and is now, we believe, also becoming a leader for small and medium-sized companies in the Process-centric market. We believe this leadership position is built on the following differentiating features including, (i) the ability of companies to capture and reuse their corporate knowledge; (ii) breakthrough technologies (generative design) enabling intelligent morphing of designs across product programs; (iii) a simple and intuitive user interface that optimizes productivity and reduces training time; (iv) full integration of all CATIA applications based on a common PPR model and (v) our packaging approach that makes CATIA readily scalable from entry-level users to high-end experts.

CATIA is a fully integrated system that allows users to tailor their product development capability according to their own particular needs. CATIA enables users to build a seamless product development environment in order to simulate the entire range of industrial design processes, from the initial concept to product design, analysis, assembly and maintenance. The CATIA product line is organized in nine domains: Mechanical Design; Shape Design and Styling; Product Synthesis; Equipment and Systems Engineering; NC Manufacturing; Analysis and Simulation; Plant; CATIA Infrastructure Solutions and CAA RADE. The CATIA V5 product line supports widely available Unix platforms and Windows platforms. CATIA includes a range of 120 CATIA Version 4 products and 139 CATIA Version 5 products, as of Release 10. DELMIA, ENOVIA and SMARTEAM are fully integrated with CATIA.

DELMIA provides comprehensive software applications to enable customers to virtually create, monitor and control flexible, distributed manufacturing processes. DELMIA software allows screen-based simulation and optimization of manufacturing processes from single device work cells to production lines, and from factory material flow to extended enterprise production flow. The DELMIA software family contains process planning, standard time measurement applications, human simulation, robot and machine application simulation, as well as solutions for material flow simulation. Manufacturing process coverage ranges from the concept development phase to shop floor implementation and production management. In its full application, DELMIA can be used to design and simulate the operation of an entire factory and to optimize production processes.

ENOVIA software applications facilitate innovation and collaboration across the enterprise by enabling all participants involved in the definition, approval, manufacturing and maintenance of a product to access, share and manage the information required at all stages of a product s lifecycle. The applications are delivered

through five fully integrated foundations for optimized innovation and total management of the product lifecycle. The underlying enterprise architecture ensures scalability; a rapid application development environment (RADE) provides openness based on industry standards; the ENOVIA portal is a gateway into the enterprise for collaboration, visualization, analysis, and data and process federation and Lifecycle Applications deliver full product lifecycle support based on industry best practices.

SMARTEAM product data management and collaboration products allow users to efficiently archive, retrieve, create, edit, control, share and annotate models, documents, tables and other types of engineering and enterprise information. SMARTEAM offers an array of integrated, on-line collaboration technologies and provides an affordable, readily customizable, rapidly implemented software application that can easily be expanded throughout an enterprise as its needs evolve. SMARTEAM products may be used from within the leading Windows-based computer-aided-design applications.

SPATIAL s mission is to provide 3D and PLM software development environments. This is accomplished by leveraging its significant expertise in packaging, selling and supporting high value added software components to act as the primary channel for sales and marketing of the CAA V5 PLM development environment. Secondly, Spatial continues to offer new and existing 3D technologies as component extensions of the current SPATIAL product family. Its flagship product, the ACIS 3D Geometric Modeler, is employed by a large number of CAD application developers that combine to constitute the largest installed base for solid modeling components.

Version 5 Technology. Combining our technological capabilities with our understanding of market needs, we have developed an innovative and open software architecture Version 5 or V5 first released at the end of 1999. V5 is the principal technological backbone for the development of new products for the PLM market in making possible a tight integration of CATIA for product authoring, DELMIA for production means authoring and ENOVIA for product management and collaboration.

A major component of V5 is its unique object model linking products, processes and resources to support multidisciplinary collaboration. It enables dynamic, knowledge-based product creation and decision support to drive optimized product definition, manufacturing preparation, production and service.

V5 s open architecture enables other software developers to build on and complement our software application, thus permitting the integration of our V5 based products with third-party applications.

V5 technology provides our PLM products with scalability . Scalability allows enterprises of different sizes, and users with diverse profiles, from occasional use to highly sophisticated engineering, to benefit from a fully integrated PLM solution. Scalability is possible with our PLM solutions because they have a common V5 architecture, which allows them to be packaged according to the client s specific needs.

The following five fundamentals provide the underlying context for the development of V5:

Industry specific business process optimization. Process centricity involves becoming a learned and captive professional on the processes employed by our customers in the context of the competitive needs of their respective industries. This is achieved by investing time, resources and energy to grasp the basis behind the business processes that drive manufacturing industries. True benefits for manufacturing industries will not be achieved by only accommodating current practices, it will be achieved by understanding the direction in which their businesses are being driven and defining together the processes that need to be realized. Delivering competitive advantage through end-to-end process optimization is achieved by sharing with our customers a common and thorough view of the next breakthrough processes and then realizing them through V5.

Pervasive 3D based communication and collaboration. When people interact in a shared workspace, they understand each other, they communicate with each other and they collaborate in a manner that is uniquely enhanced by the power of 3D. The most significant contribution to collaboration in product development in the past ten years has been digital mock-up (DMU). Pioneered by us, DMU provides an immersive 3D environment where all the participants in the product lifecycle can interact with each other s designs, thus significantly enhancing communication through rapid exchange, direct-use, simulation and validation. Many major new projects are now being developed by networks of partners that span corporate and

geographic boundaries. It is crucial to have accurate and comprehensive information circulating throughout such networks in order to achieve virtual co-location of all the participants. V5 incorporates technologies and delivers capabilities that harness the Internet and corporate information hubs to extend the pervasiveness of 3D across these partner networks. This brings a new level of decision support and collaboration that breaks down the barriers imposed by different partners or geography and further accelerates the product development process.

Unique product, process and resource description and integration model. The lifecycle of a manufactured product extends beyond the product itself to also include the means and methods required to produce and maintain it. At the core of V5 lies a unique technology called PPR that provides an associative model that integrates the product with its processes and resources. PPR also incorporates a virtual product model that captures the logical, functional and spatial definition of the product, processes and resources. With this model, an accurate context can now be established to ensure configuration management, simulation, change propagation and thorough linkage across the lifecycle. True product lifecycle optimization can only occur within this context and this capability is unique within the V5 architecture.

Capturing, sharing and re-applying corporate knowledge. Manufacturing corporations have recognized that intellectual property is increasingly becoming their most valuable asset as competitive pressures place a premium on innovation. Harnessing knowledge to innovate consists of being able to capture or mine knowledge, share it and reuse or re-apply it quickly, accurately and efficiently. The integration of knowledge-based services throughout V5 provides the capability necessary to allow a corporation to harness its knowledge to innovate. V5 applications make a further breakthrough by directly embedding knowledge. Critical industry specific processes are supported by dedicated applications that incorporate best practices and design rules. These applications have knowledge, they incorporate the understanding, for example, behind aero-elastic effects on a wing or behind the nuances that drive the styling for a car.

Openness and extension through component based architecture and community. The specific needs of each customer require that their PLM solution be tailored, extended and integrated. These requirements necessitate openness and the ability to re-apply components to achieve different behavior or capability. The component application architecture provided within V5 has been specifically developed to meet these needs. Built using state of the art object oriented programming languages including Java and C++, the V5 architecture is similar to other leading-edge software such as Microsoft COM/ActiveX or J2EE. Components are building units that allow the design and implementation of sophisticated and complex software products; they allow software designers to focus on high level conceptual programming and enforce encapsulation of implementation details. This approach allows larger groups of developers to contribute to and enrich the software application system as it evolves. We have thus developed a network of partner companies that offer niche products incorporating specific expertise. By using V5, these partners have a single development platform that ensures delivery of a seamless, integrated software tool composed of both our products and theirs. The component architecture also enables our objective to generalize the market s use of our technology, an activity that is conducted through Spatial.

Design-centric market

The Design-centric market focuses principally on product design. It complements the Process-centric market in reaching a far larger number of potential users.

Design-centric products. To address the specific needs of the Design-centric market, SolidWorks develops and markets easy-to-use solid modeling, analysis, and product data management desktop products that can drastically improve productivity for users who previously used 2D applications. SolidWorks products are designed specifically for Windows. SolidWorks has developed powerful, complete design solutions including SolidWorks Office Professional 3D CAD, productivity, communication and data management suite of products; and 3D content solutions, comprised of 3D PartStream.NET and 3D ContentCentral which allows manufacturers to leverage components already available in the marketplace without a need to redesign parts from scratch.

Customers and Industrial Sectors

We offer our products, including 3D software components, to the seven industrial sectors listed below, each of which is followed by a sampling of customer names.

The table below sets forth the proportion of our revenues represented by sales to each major industrial sector for each of the years 2002 and 2001. These figures represent our total sales, comprising both Process-centric and Design-centric segments.

	2002	2001
Automotive	35%	34%
Aerospace	16	17
Fabrication and Assembly and Others	33	33
Consumer Goods and Electrical & Electronics	13	13
Plant Design and Shipbuilding	3	3
	100%	100%

Automotive. Original Equipment Manufacturers using our software solutions include:

BMW
DaimlerChrysler
Ferrari
Ford
Honda
Lamborghini
MAN Nutzfahrzeuge AG
Mitsubishi
Porsche
PSA Peugeot-Citroen
Renault
Scania
Toyota
Volkswagen
Volvo

Customers in the Automotive sector supply chain using our software solutions include:

Aisin Seiki Co.
AP Racing
Autoliv
Behr
Brose Fahrzeugteile
Century Automotive
Continental AG
Delphi
Denso Corp.
Faurecia
Hella
Johnson Controls
Johnson Electric Automotive
LeciTrailer
Magna
Michelin
Robert Bosch
TALGO
TRW Automotive
Valeo

Of the 11 teams participating in the 2002 Formula 1 season, 10 teams employed our solutions to develop their engines or chassis. These include McLaren-Mercedes, BMW, Sauber, Honda, Ferrari, Renault, Arrows and AsiaTech.

Aerospace. Customers in the Aerospace sector using our software include:

Airbus
Alenia
AVIC
Bell Helicopters
BF Goodrich Aerospace
Boeing
Bombardier
British Aerospace
Connecteurs Deutsch
Dassault Aviation
EADS
Embraer
Eurocopter
Fairchild Fasteners
Gulfstream
Honeywell
Japan Aviation
KHI
Lockheed Martin
Loral
MHI
MTU
Nasa Ames Research Center
Northrop Grumman
Packer Aircraft Engineering
Raytheon
Saab
Singapore Technologies Aerospace
Smiths Aerospace
Snecma
Tinker Air Force Base
United Technologies

Fabrication & Assembly. Customers in the Fabrication and Assembly sector using our software include a wide range of companies, including heavy equipment manufacturers and industrial machines. Some of our customers are listed below as follows:

Arburg
Babcock & Wilcox
Chin Fong Machine Industrial Co. Ltd.
Claas
Daewoo Heavy Industries
Federal Cartridge
Framatome
GoodYear
Gründfos
Iscar
IWK Verpackungstechnik
Johnson Controls
Kalmar
Kliklok International
Komatsu
Krebs
Man
Metso
Michelin
Officine Meccaniche Toschi
OshKosh Group
Paper Converting Machine Corporation
Prince Castle
Priority One Packaging
Schuler
Sidel
Staubli
Sumitomo
Toyota Industries Corporation
Yanmar

Customers in the train industry using our products include: Bombardier Transport, Allusuisse Road & Rail Ltd. and Alstom.

Consumer Goods. Customers in the Consumer Goods sector using our software solutions include:

AEG
Asahi
Austria Gaming Industries
Binney & Smith
Black & Decker
Bombardier Recreation
Citizen Watch
Coca Cola
De Longhi
Electrolux
ETA Swatch
Fratelli Guzzini
Gucci
Kärcher
Konica
Leifheit
Metabo
Miele
Nilfisk Advance
Plano Mold
Samsonite
Sidel
Smoby
Solo Golf
TREK
Triton Showers
Werner Ladder Co.
Yakima

Electrical & Electronics. Customers in the Electrical and Electronics sector using our software solutions include:

Allgon
Alpine
Ares Communications Tech
Ascom Monetel
Automatic Systems
Ceragon Networks
Clarion
Gnatus
Grundig
IBM
Intel Corporation
Hubert and Suhner
Legrand
Mars Electronics
Matsushita
MDS Sciex
Nikon
Pioneer
Promise Technology
Radio Frequency Systems
Scheidt and Bachmann
Sharp
Siemens
Sony
Sub-Zero
Thales
Wolf Appliance

Plant Design. Customers in the Plant Design sector using our software solutions include:

Ansaldo
Albert Kahn Associates
Alstom Power
BEI
Consol Energy
DaimlerChrysler
Farnham & Pfile Engineering and Construction
Gehry Partners
Haden International
ITER
METSO Corporation
PEMEX
Shell
Toyota

Shipbuilding yards and operators of passenger and cruise ships. The Shipbuilding sector is the most recent segment we have targeted. Our customers include:

General Dynamics Bath Iron Works
General Dynamics Electric Boat
HDW AG
HSD Engines
KHI (Kawasaki Heavy Industry)
MeyerWerft
MHI (Mitsubishi Heavy Industry)
Northrop Grumman Newport News
Northrop Grumman Ship Systems
Yantai Raffle Shipyards

In addition to the seven industrial sectors, we also offer 3D software components across all industry sectors. Set forth below is a list of customers for our 3D software components:

ABAQUS/CAE by Hibbit, Karlsson & Sorensen, Inc.
Alibre Design by Alibre Inc.
Ansoft Corporation
CADKEY by Cadkey, Inc.
Cimatron E by Cimatron
Dynamic Designer on CAA V5 (ADAMS) by Applied Research Associates
GSCAD by Intergraph Corporation
IronCAD
Proficiency LTD (CAA V5)
Radan LTD (ACIS)
Sandia National Laboratory
Space-E by Hitachi Zosen Information Systems Vistagy

Our Extended Enterprise Partnerships

The extended enterprise concept emerged from our partnership with IBM for the distribution of our products. For a description of our partnership with IBM, see Sales and Marketing , below. We have reinforced our extended enterprise approach through our relationships with customers, technological partnerships, product development partnerships and partnerships with computer hardware manufacturers.

IBM partnership. Our long-standing partnership with IBM has provided us with deep technical expertise and commercial strength beyond the marketing and sales agreement. In the hardware, middleware and consulting services domains, IBM has been a key partner to us. Furthermore, collaboration in several areas of research and development has been the cornerstone of our and IBM s commitment to technical leadership for the digital enterprise. For example, in February 2002, we announced with IBM that ENOVIA would include IBM s WebSphere middleware in its application architecture in order to enable ENOVIA software to be integrated with Web-based technologies.

Customer partnerships. We establish a permanent dialogue between our research and development teams and our customers, thereby ensuring product developments that are responsive to market needs. Principally due to the openness of our software applications, we offer our customers the opportunity to develop complementary seamless software applications for internal use. We believe that thousands of applications have been thus developed by our customers to meet their specific needs. In addition, we have created competency centers based on specialized industrial segments to gather information on our customers processes and thus help develop additional applications tailored to the needs of each industry.

We also organize user groups and forums to allow customers to share their experiences. Each year, more than 10,000 people participate in our customer events.

Technological partnerships. In order to maximize our benefits from available technology, we have established technical collaboration partnerships with IBM, HP, SUN, SGI, Intel and Microsoft, as well as prestigious universities. The new technologies included in Version 5 were developed as native Windows and Unix environments.

We have also been working closely with the primary suppliers of virtual reality software applications since 1998. Our objective is to integrate into CATIA Version 5 the tactile design technology of SensAble Technologies, the immersive design technologies of Fakespace, the immersive visualization display of Barco NV, Projection Systems, and the advanced visualization solutions of Panoram Technologies.

In order to optimize the technology of our products with computer manufacturers power in graphics and calculation, we work in close collaboration with the computer hardware industry. In the Unix environment, these partnerships have been active for several years with suppliers of IBM, Sun Microsystems, SGI, and HP workstations. We have also set up a certification program with numerous vendors of Windows workstations, including IBM, HP, Compaq, SGI, Dell, Fujitsu Siemens Computers and NEC.

Product development partnerships. In order to enable software developers to create and market their own software applications using the Version 5 architecture, we set up the Component Application Architecture (CAA V5) program that seeks to offer complementary applications for CATIA, DELMIA and

ENOVIA. Technical and marketing support is also provided to companies participating in the CAA V5 program.

SolidWorks also operates a two-tier development partnership program bringing together companies supplying products that are either compatible with, or entirely integrated into, SolidWorks.

In January 2002, we announced the creation of a joint venture in India, 3D PLM Software Ltd., with Geometric Software Solutions Limited (GSSL). 3D PLM Software Ltd. is dedicated to providing software development and industrialization work to our Group.

Sales and Marketing

IBM Channel Overview. We have had a long-standing partnership with IBM for 22 years. Revenue generated through our distribution agreement with IBM represented approximately 61%, 60% and 65% of our total revenue in 2002, 2001 and 2000, respectively. Since our inception in 1981, our CATIA products, since 1998 our ENOVIA products, and since the Fall 2001 our SMARTEAM products, have been marketed and distributed principally by IBM pursuant to a mutually non-exclusive agreement which also includes consulting services. See Item 3D: Risk Factors Risks Related to Our Business During the year 2002, approximately 61% of our revenue resulted from sales of our products by IBM... and Our products have a long and variable sales cycle... .

Under our agreement with IBM, we license CATIA, ENOVIA and SMARTEAM products to IBM, which then sublicenses them to end-users. IBM shares with us the license fees invoiced by IBM to end-users under the software licenses, and we record as software revenue only our share of such license fees. IBM pays a share to us in the form of royalties, which approximates 50% of total CATIA, ENOVIA and SMARTEAM license fees invoiced by IBM. Since 1995, IBM was able to earn an incentive that increased its share provided it reached certain revenue growth targets. In July 2002, we entered into a new agreement whereby IBM has agreed to significantly increase the resources of the IBM PLM organization and we, in turn, have modified the royalty incentive to link it to IBM making such investments. Specifically, under our new royalty agreement with IBM, our initial royalty rate is unchanged at 50% of the license fees invoiced by IBM and moves down a sliding scale to 46.8% of the license fees invoiced by IBM if IBM meets its resources investment objectives as well as annual revenue growth objectives. The resources investment criteria is expressed as a level of marketing and sales expenses and can lead to an incentive of up to 2% of end-user revenues, and the revenue growth achievement can lead to up to the remaining 1.2%.

IBM Channel Marketing Structure. CATIA, ENOVIA and SMARTEAM products are distributed principally by IBM PLM, an IBM entity exclusively dedicated to the sale of these products to large enterprises primarily. In addition, since 2000, we decided, together with IBM, to put more emphasis on sales to small and medium-sized enterprises, through a joint staffing with IBM, pursuant to which we provide additional support to a network of IBM business partners, in the form of distribution arrangements or value-added resellers, and contribute funds to an enhanced marketing budget in order to ensure more brand awareness for CATIA, ENOVIA and SMARTEAM and enhance lead generation for the IBM business partners.

Since 2001 we, jointly with IBM, have entered into agreements with new IBM business partners, devoted to market, on a non-exclusive basis, our CATIA, ENOVIA and SMARTEAM products, as well as to develop V5-based software products on their own. These new business partners have included, among others, Hitachi Zosen, MSC.Software, RAND Worldwide and Unisys.

Since January 2002, we have been a Premier PLM Consulting Partner of IBM IGS, the IBM worldwide organization dedicated to the sale of services. IGS provides both the contacts with customers as well as the consulting and implementation capabilities in order to drive adoption of our PLM solutions. We actively participate to train IGS consultants and develop with IGS teams service offerings related to our PLM solutions.

Direct Sales Channels. DELMIA s products are marketed by a direct sales force of approximately 100 persons, which is complemented by resellers and IBM. Specifically, for DELMIA products, IBM and we have agreed to team together through a Cooperative Marketing Agreement to deliver digital manufacturing

software applications to accounts where both IBM and we can bring value. This agreement enables IBM to co-market DELMIA products to certain customers on a case-by-case basis, while ensuring that the DELMIA specialized sales force maintains the sales and support lead at the customer.

In some geographic markets SMARTEAM products are also marketed by a direct sales force.

Indirect Sales Channels. SolidWorks products are marketed by a network of approximately 300 independent resellers specifically focused on the local markets in 75 countries around the world. In addition, DELMIA and SMARTEAM products are marketed and sold in part by resellers.

Competition

Markets for our products are highly competitive and characterized by rapidly changing technology and evolving standards. Our main competitors in most product areas include EDS and PTC. We compete principally with Tecnomatix Technologies, Ltd. in manufacturing process management. For our Design-centric products, our main competitors include Autodesk, Inc., PTC, and others. In the area of collaborative commerce, we also compete with several supply-chain management software providers, as well as other enterprise software vendors including Agile Software, i2 Technologies, Inc., MatrixOne, Oracle and SAP. In addition, numerous specialist software developers compete with us in niche applications.

We compete in our various product lines on the basis of product features, product coverage and optimization, price, openness, customized design, marketing, sales and technical support. Our ability to compete successfully depends on elements both within and outside our control, including successful and timely development of new products, product performance and quality, pricing, customer service and industry trends.

C. Organizational Structure.

The following table lists our principal operating subsidiaries and certain additional information.

Subsidiary	Proportion of Ownership Interest	Country of Organization
Delmia Corp.	100%	United States
Enovia Corp.	100%	United States
SmarTeam Corporation Ltd.	100%	Israel
SolidWorks Corporation	99.6%	United States
Spatial Corp.	100%	United States

For a list of our other direct and indirect subsidiaries, see Note R to our consolidated financial statements for the year 2002.

D. Property, Plant and Equipment.

We partially own and partially lease our principal executive offices outside Paris, France. We lease most of our other administrative, research, production and distribution facilities, which are located principally in France, the United States, Germany, Israel, Japan, Canada and the United Kingdom. We believe that our existing facilities are adequate for our current needs and that suitable additional or alternative space should be available in the future on commercially reasonable terms as needed. Delmia owns some offices in Troy, Michigan, which are presently unoccupied and which are in the process of being sold.

We believe that we are not exposed to substantial risks relating to the environment due to the nature of our business. On the contrary, our products contribute to the protection of the environment since they are designed to replace the construction of physical mock-ups and to reduce the environmental issues that are common to all industries.

We are insured using various centralized global packages. These packages provide coverage for significant risks and activities related to our operations including damage to property, product liability, including

intellectual property, directors and officers liability, and global electronic errors or omissions. We believe that the guarantees provided for by these insurance policies amount to sums proportionate to the risks involved.

Item 5: Operating and Financial Review and Prospects.

A. Operating Results.

You should read the following discussion together with our consolidated financial statements and the related notes included in this report.

Overview

Summary Financial Results

In 2002 total revenue increased 3.8% to 774.1 million from 746.1 million in 2001, and on a constant currency basis total revenue increased 7%. Software revenue increased 4.2% to 669.9 million and services revenue increased 1.2% to 104.2 million in 2002. Process-centric revenue, accounting for 84% of our consolidated revenue, increased 5.1% in 2002 to 649.4 million (including 1.7 million of inter-segment sales) and included PDM revenue (ENOVIA and SMARTEAM), which increased 25% to 82.7 million. Design-centric revenue, accounting for 16% of our consolidated revenue, amounted to 126.9 million in 2002 (including 0.5 million of inter-segment sales) compared to 128.2 million in 2001. Net income increased 42.5% to 126.4 million or diluted net income per share of 1.09 in 2002, compared to 88.7 million or 0.76 per share in 2001. Excluding the amortization of intangibles incurred in business combinations, our net income for the year ended December 31, 2002, totaled 136.0 million with diluted net income per share of 1.17, compared to 144.0 million or 1.23 per share in 2001, representing a decrease of 4.9% on a per share basis. See Results of Operations Breakdown of Revenues and Consolidated Data .

Revenue

Our total revenue is comprised of software licensing revenue and service and other revenue. Our primary source of revenue is derived from the licensing of our software products, which accounted for 87%, 86% and 86% of our total revenue in 2002, 2001 and 2000, respectively. We generate service revenue through the consulting and technical assistance we provide to our customers. Revenue generated through our marketing and sales agreement with IBM represented approximately 61% of our total revenue in 2002 compared with 60% in 2001 and 65% in 2000. See Item 4B: Business Overview Sales and Marketing and Item 5A: Operating Results Results of Operations Breakdown of Revenues .

Our software solutions are marketed principally by IBM, as well as through a network of distribution partners and a direct sales force for certain products.

Recurring software revenue is an important characteristic of our financial model. Recurring software revenue represented 48%, 45% and 43% of total software revenue in 2002, 2001 and 2000, respectively. Recurring software revenue is comprised of rights of use, rental licenses (mainly to large customers) and maintenance fees.

We license CATIA, ENOVIA and DELMIA products under one of two payment structures: (i) rental licenses, for which the customer pays equal periodic fees to keep the license active, and (ii) primary charge licenses, for which the customer pays an initial fee (a primary fee). Customers who pay a primary charge subsequently pay periodic fees (annual or monthly). For both forms of license, periodic fees entitle the customer to corrective maintenance and product updates without additional charge. Product updates include improvements to existing products but do not cover new products. For a breakdown of revenue between initial fees and periodic fees, see Note C to our consolidated financial statements. This licensing model is also used for marketing SMARTEAM products through IBM.

Licensing revenues from products sold through IBM are recognized when IBM records revenue from the sale of our products.

Software licenses offered by SolidWorks require the payment of a one-time fee giving users the right to use the products indefinitely. Access to upgrades and maintenance require payment of an annual maintenance fee.

For software components sold by Spatial, we receive license and maintenance fees as well as royalties for the sale of software products including embedded Spatial components.

We generate service revenue mainly from consulting services in methodology and engineering services. In addition, we generate service revenue from sales activities as an IBM partner in France, Belgium and Switzerland, where we act (through one of our French divisions) as IBM s commercial partner for the sale of CATIA, ENOVIA and SMARTEAM licenses, and we record the commissions we receive from IBM for this activity as service revenue. The division in charge of this activity also resells computer hardware, but in this case we record only the gross profit from the sales as service revenue.

Expenses

Research and development expenses represented 29%, 28% and 27% of total revenue in 2002, 2001 and 2000, respectively. Research and development expenses primarily include personnel costs for specialists in software architecture and various application fields such as mechanical design, manufacturing, mechanical engineering and computer graphics, as well as for specialists with significant experience and knowledge of our target industrial sectors. Research and development expenses also include computer rental expenses, the depreciation and cost of maintenance related to computer hardware used in research and development, development tools, networking and communication expenses.

Costs for research and development of software are expensed when incurred, if the analysis of technical criteria does not qualify them as a capital asset. Since our founding in 1981, implementation of this accounting policy has resulted in all such costs being expensed in the period in which they were incurred.

Marketing and sales expenses represented 22%, 22% and 19% of total revenue in 2002, 2001 and 2000, respectively. Marketing and sales expenses are derived principally from our marketing activities in support of IBM and the SolidWorks, DELMIA and SMARTEAM sales forces. We also incur marketing and sales expenses from our activities as an IBM business partner in France, Belgium and Switzerland, and from our direct sales to customers, particularly for DELMIA and Spatial and in part for SMARTEAM. Marketing and sales expenses primarily consist of personnel costs, travel expenses, marketing infrastructure costs, such as computer and office rental expenses, as well as sales commissions.

Amortization of intangibles incurred in business combinations includes expenses for research and development projects that have not reached the technical feasibility stage or are considered to have no future value. Amortization of intangibles incurred in business combinations also includes amortization of goodwill (prior to fiscal year 2002) and amortization of technology acquired in connection with business combinations.

Critical accounting policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make certain assumptions and judgments. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, among others, affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

We recognize revenue in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, Software Revenue Recognition, as amended by SOP 98-9, Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions , Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 101, Revenue

Recognition in Financial Statements (SAB 101) and other authoritative guidance. Although we believe that we are currently in compliance with SOP 97-2, SOP 98-9 and SAB 101, the accounting profession continues to discuss various provisions of these guidelines with the objective of providing additional guidance on their future application. These discussions and the issuance of new interpretations, once finalized, could lead to changes in our recognized revenue. See Note A to our consolidated financial statements.

Accounts receivable

Accounts receivable consist primarily of amounts due to us from our normal business activities. We maintain an allowance for doubtful amounts to reflect the expected uncollectibility of amounts receivable. These estimates are based on bad debt write-offs, specific identification of probable bad debts based on collection efforts, aging of accounts receivable and other known factors. Actual results could differ from those estimates.

Taxes

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

We evaluate regularly the realizability of our deferred tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. We have used tax planning strategies to realize or renew net deferred tax assets in order to avoid the potential loss of future tax benefits.

In addition, we operate within multiple tax jurisdictions and are subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. In management s opinion, adequate provisions for income taxes have been made for all years.

Investment in equity securities

We hold minority interests in companies having operations or technology in areas within our strategic focus, some of which are publicly traded and have highly volatile share prices. We record an investment impairment charge when we believe an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future.

Results of Operations

For the year ended December 31, 2002, we recorded revenue of 774.1 million and net income of 126.4 million, representing diluted net income per share of 1.09. These results included amortization of acquired technology amounting to 11.1 million (9.6 million after tax). Excluding the amortization of acquired technology, our net income for the year ended December 31, 2002, totaled 136.0 million with diluted net income per share of 1.17. The table below sets forth key figures from our statements of income.

	Year ended December 31,		
	2002	2001	2000
		(in millions, except per share data)	
Revenue	774.1	746.1	632.4
Gross profit	653.3	638.7	541.7
Operating income	203.0	162.6	178.8
Net income	126.4	88.7	103.7
Diluted weighted average number of common shares outstanding	116.2	116.7	118.6
Diluted net income per share	1.09	0.76	0.87
Pro forma excluding amortization of intangibles incurred in business combinations(1)			
Operating income	214.1	221.0	218.9
Net income	136.0	144.0	139.2
Diluted net income per share	1.17	1.23	1.17

(1) Amortization of intangibles incurred in business combinations totaled 11.1 million in 2002 (9.6 million after tax) (and consisted entirely of the amortization of acquired technology) compared with 58.4 million in 2001 (55.3 million after tax) and 40.2 million in 2000 (35.5 million after tax). We believe that this supplemental information is an important indicator of operational strength and performance of our business and is used by analysts, investors and other interested parties. However, operating income, net income and diluted net income per share excluding amortization of intangibles incurred in business combinations is not a U.S. generally accepted accounting principles measurement and should not be considered as an alternative to amounts reported under U.S. generally accepted accounting principles.

The table below sets forth the contribution of the Process-centric and Design-centric segments to our revenue, gross profit, operating income and net income (see also Notes A and Q to our consolidated financial statements).

	Year ended December 31,					
	2002		2001		2000	
	(in millions of euro, except percentages)					
Revenue						
Process-centric	649.4	83.9%	617.9	82.8%	534.8	84.6%
Design-centric	126.9	16.4%	128.2	17.2%	97.6	15.4%
Elimination	(2.2)	(0.3%)				
Total	774.1	100.0%	746.1	100.0%	632.4	100.0%
Gross profit						
Process-centric	541.6	82.9%	522.4	81.8%	453.1	83.6%
Design-centric	113.3	17.3%	116.3	18.2%	88.6	16.4%
Elimination	(1.7)	(0.2%)				
Total	653.3	100.0%	638.7	100.0%	541.7	100.0%
Operating income						
Process-centric	170.9	84.2%	126.6	77.8%	150.9	84.4%
Design-centric	32.1	15.8%	36.0	22.2%	27.9	15.6%
Total	203.0	100.0%	162.6	100.0%	178.8	100.0%
Net income						
Process-centric	104.2	82.4%	63.8	72.0%	84.5	81.5%
Design-centric	22.2	17.6%	24.9	28.0%	19.2	18.5%
Total	126.4	100.0%	88.7	100.0%	103.7	100.0%
Pro forma excluding amortization of intangibles incurred in business combinations(1)						
Operating income						
Process-centric	181.8	84.9%	184.0	83.3%	190.9	87.2%
Design-centric	32.3	15.1%	37.0	16.7%	28.0	12.8%
Total	214.1	100.0%	221.0	100.0%	218.9	100.0%
Net income						
Process-centric	113.6	83.5%	118.2	82.1%	119.9	86.2%
Design-centric	22.4	16.5%	25.8	17.9%	19.3	13.8%
Total	136.0	100.0%	144.0	100.0%	139.2	100.0%

(1) Amortization of intangibles incurred in business combinations totaled 11.1 million in 2002 (9.6 million after tax) (and consisted entirely of the amortization of acquired technology) compared with 58.4 million in 2001 (55.3 million after tax) and 40.2 million in 2000 (35.5 million

after tax). We believe that this supplemental information is an important indicator of operational strength and performance of our business and is used by analysts, investors and other interested parties. However, operating income, net income and diluted net income per share excluding amortization of intangibles incurred in business combinations is not a U.S. generally accepted accounting principles measurement and should not be considered as an alternative to amounts reported under U.S. generally accepted accounting principles.

The tables below set forth the breakdown of revenue by type of activity and geographic region for the periods indicated.

Breakdown of Revenues

	Year ended December 31,		
	2002	**2001**	**2000**
	(in millions of euro)		
Revenue by activity:			
Software revenue	669.9	643.0	541.7
Service and other revenue	104.2	103.1	90.7
Total revenue	774.1	746.1	632.4

	Year ended December 31,		
	2002	**2001**	**2000**
	(in millions of euro)		
Revenue by geographic region:(1)			
Europe(2)	374.5	380.4	334.8
North and South America(3)	224.0	219.3	188.8
Asia/Pacific(3)	175.6	146.4	108.8
Total	774.1	746.1	632.4

(1) In our consolidated financial statements, we classify and state software revenue by geographic region in two ways: (i) by the geographic location of the end-user customer, and (ii) by the geographic location of our business unit which records the transaction. See Note Q to our consolidated financial statements. In the tables above, software revenue is classified by the geographic location of the end-user customer, while service and other revenue is classified by the location where the activity is performed.

(2) Germany and France account for most of our sales in Europe. See Note Q to our consolidated financial statements.

(3) Most of the revenue from North and South America comes from the United States, and most of the revenue from the Asia/Pacific region comes from Japan.

The tables below present certain financial data taken from our consolidated financial statements expressed as a percentage of our total revenue, except for data per share, which is expressed in euro, and for numbers of shares. Our revenue and the percentages of the various expense or other revenue items may not be comparable with those of our competitors due to the distribution of our products by IBM.

Consolidated Data

	Year ended December 31,		
	2002	**2001**	**2000**
	(as a % of revenue, except per share data)		
Revenue:			
Software revenue	86.5	86.2	85.7
Service and other revenue	13.5	13.8	14.3
Total revenue	100.0	100.0	100.0
Cost of revenue:			
Software	(3.2)	(2.8)	(2.4)
Service and other	(12.4)	(11.6)	(11.9)
Total cost of revenue	(15.6)	(14.4)	(14.3)
Gross profit	84.4	85.6	85.7
Research, selling and administrative expenses:			
Research and development	(28.7)	(28.0)	(26.8)
Marketing and sales	(21.9)	(22.0)	(18.6)
General and administrative	(6.2)	(5.9)	(5.6)
Amortization of goodwill		(5.9)	(4.7)
Amortization of acquired technology	(1.4)	(1.9)	(1.7)
Total research, selling and administrative expenses	(58.2)	(63.8)	(57.4)
Operating income	26.2	21.8	28.3
Equity in net income of unconsolidated affiliates joint ventures	0.0	0.0	0.0
Financial revenue and other net	0.4	1.9	1.7
Income before income taxes	**26.6**	**23.7**	**30.0**
Income tax expense	(10.3)	(11.8)	(13.6)
Net income	16.3	11.9	16.4
Basic net income per share	1.11	0.78	0.92
Diluted net income per share	1.09	0.76	0.87
Weighted average number of common shares outstanding	114,118,817	113,694,585	113,053,650
Diluted weighted average number of common shares outstanding	116,247,725	116,659,988	118,633,182

Pro forma excluding amortization of intangibles incurred in business combinations:(1)			
Operating income	27.7	29.6	34.6
Net income	**17.6**	**19.3**	**22.0**
Basic net income per share	1.19	1.27	1.23
Diluted net income per share	1.17	1.23	1.17

(1) Amortization of intangibles incurred in business combinations totaled 11.1 million in 2002 (9.6 million after tax) (and consisted entirely of the amortization of acquired technology) compared with 58.4 million in 2001 (55.3 million after tax) and 40.2 million in 2000 (35.5 million after tax). We believe that this supplemental information is an important indicator of operational strength and performance of our business and is used by analysts, investors and other interested parties. However, operating income, net income and diluted net income per share excluding amortization of intangibles incurred in business combinations is not a U.S. generally accepted accounting principles measurement and should not be considered as an alternative to amounts reported under U.S. generally accepted accounting principles.

Process-centric

	Year ended December 31,		
	2002	2001	2000
	(as a % of revenue)		
Revenue:			
Software revenue	83.7	83.3	83.0
Service and other revenue	16.3	16.7	17.0
Total revenue	100.0	100.0	100.0
Cost of revenue:			
Software	(1.7)	(1.4)	(1.1)
Service and other	(14.8)	(14.0)	(14.2)
Total cost of revenue	(16.6)	(15.4)	(15.3)
Gross profit	**83.4**	**84.6**	**84.7**
Research, selling and administrative expenses:			
Research and development	(29.9)	(29.5)	(28.3)
Marketing and sales	(18.8)	(19.0)	(14.8)
General and administrative	(6.7)	(6.2)	(5.9)
Amortization of goodwill	0.0	(7.0)	(5.5)
Amortization of acquired technology	(1.7)	(2.3)	(2.0)
Total research, selling and administrative expenses	(57.1)	(64.1)	(56.5)
Operating income	26.3	20.5	28.2
Equity in net income of unconsolidated affiliates joint ventures	0.0	0.0	0.0
Financial revenue and other net	0.2	1.8	1.5
Income before income taxes	**26.5**	**22.3**	**29.7**
Income tax expense	(10.5)	(12.0)	(13.9)
Net income	16.0	10.3	15.8
Pro forma excluding amortization of intangibles incurred in business combinations:(1)			
Operating income	28.0	29.8	35.7
Net income	**17.5**	**19.1**	**22.4**

(1) We believe that this supplemental information is an important indicator of operational strength and performance of our business and is used by analysts, investors and other interested parties. However, operating income, net income and diluted net income per share excluding amortization of intangibles incurred in business combinations is not a U.S. generally accepted accounting principles measurement and should not be considered as an alternative to amounts reported under U.S. generally accepted accounting principles.

Design-centric

	Year ended December 31,		
	2002	**2001**	**2000**
	(as a % of revenue)		
Revenue:			
Software revenue	99.7	100.0	100.0
Service and other revenue	0.3	0.0	0.0
Total revenue	100.0	100.0	100.0
Cost of revenue:			
Software	(10.7)	(9.3)	(9.3)
Service and other	0.0	0.0	0.0
Total cost of revenue	(10.7)	(9.3)	(9.3)
Gross profit	**89.3**	**90.7**	**90.7**
Research, selling and administrative expenses:			
Research and development	(21.5)	(20.8)	(18.7)
Marketing and sales	(38.0)	(36.7)	(39.3)
General and administrative	(4.4)	(4.4)	(4.0)
Amortization of goodwill	0.0	(0.8)	(0.1)
Amortization of acquired technology	(0.1)	0.0	0.0
Total research, selling and administrative expenses	(64.0)	(62.6)	(62.1)
Operating income	25.3	28.1	28.6
Equity in net income of unconsolidated affiliates joint ventures	0.0	0.0	0.0
Financial revenue and other net	1.4	2.3	3.3
Income before income taxes	**26.7**	**30.4**	**31.9**
Income tax expense	(9.2)	(11.0)	(12.2)
Net income	17.5	19.4	19.7
Pro forma excluding amortization of intangibles incurred in business combinations:(1)			
Operating income	25.5	28.8	28.7
Net income	**17.6**	**20.1**	**19.8**

(1) We believe that this supplemental information is an important indicator of operational strength and performance of our business and is used by analysts, investors and other interested parties. However, operating income, net income and diluted net income per share excluding amortization of intangibles incurred in business combinations is not a U.S. generally accepted accounting principles measurement and should not be considered as an alternative to amounts reported under U.S. generally accepted accounting principles.

2002 versus 2001

Consolidated Information

Revenue. Revenue increased 3.8% to 774.1 million in 2002 compared with 746.1 million in 2001. On a constant currency basis, total revenue increased 7% in 2002. Specifically, our revenue was impacted by the decrease in the value of the U.S. dollar, our principal invoicing currency outside the euro-zone, which negatively impacted growth in consolidated revenue by 2 percentage points. The decrease in the value of the dollar also led to a 2 percentage point decrease in our expenditures. In addition, the yen, which is our second most important invoicing currency outside the euro-zone, accounted for a 1 percentage point decrease in the growth in consolidated revenue.

We believe that we are the global leader of the market for Product Lifecycle Management software with a market share of approximately 21% (Source: Daratech).

Software revenue increased 4.2% to 669.9 million in 2002 compared with 643.0 million in 2001. This increase can be attributed principally to a 5.6% growth in software revenue (after inter-segment eliminations) in our Process-centric segment. Process-centric growth benefited from the strong performance of our PDM software solutions, which reported a 25% increase in revenue, and from the strengthening of Version 5 including new functionalities aimed at broadening our PLM offering.

Software revenue (after inter-segment eliminations) in the Design-centric segment decreased by 1.4% to 126.4 million in 2002 which reflected primarily the weak economic environment, as well as unfavorable exchange rates. Software revenue represented 100% of total Design-centric revenue (after inter-segment eliminations) in both 2002 and 2001.

Recurring software revenue increased 9.7% to 320.1 million in 2002 compared to 291.8 million in 2001. Recurring software revenue represented 48% of software revenue in 2002 compared with 45% in 2001. The contribution of recurring software revenue to total software revenue is growing largely due to the continuous increase in the installed workstation base of the Process-centric segment and to the growing share of recurring revenue fees in the Design-centric segment.

Services revenue increased 1.2% to 104.2 million in 2002, compared with 103.1 million in 2001. This increase was lower than our growth in sales of software in the Process-centric segment because part of the services team was directed to develop new Version 5 methodologies as best practices for our PLM solutions.

The growth in total revenue was 2.1% in the Americas and the decrease in total revenue was 1.5% in Europe. Performance in these two regions was negatively impacted by the slower economic environment. In addition, in the Americas, growth was negatively impacted by about 5 percentage points because of the decrease in value of the U.S. dollar against the euro. Revenue from the Asia-Pacific region increased by 20.0% in euro in 2002, despite the strong impact of the yen decrease (approximately 10 percentage points of growth). This growth resulted from continued strong interest in our products and on-going sales and marketing efforts despite the crisis of recent years.

Gross Profit. Gross profit increased 2.3% to 653.3 million in 2002 compared with 638.7 million in 2001. This increase reflects the rise in revenue, which was partially offset by a higher cost of sales principally from consulting service activities. Gross profit for services represented 7.5% of services revenue in 2002 compared with 16.0% in 2001 due to our increased investment in new Version 5 methodologies as best practices for our PLM solutions. Gross margin decreased from 85.6% in 2001 to 84.4% in 2002. Software cost of revenue represented 3.6% of software revenue in 2002 compared to 3.2% in 2001, reflecting an increase in investment in third party component software.

Research and development expenses. Research and development expenses increased by 5.9% to 221.6 million in 2002 compared with 209.2 million in 2001. This increase was due to the 11.2% increase in average research and development staff devoted to the on-going development of the V5 architecture and its related PLM software applications. These increases were partially offset by the lower relative value of the U.S. dollar and cost control measures. As a percentage of total revenue, research and development expenses increased to 28.7% in 2002, compared with 28.0% in 2001. On December 31, 2002, the total headcount involved in research and development and production represented 48.1% of our total workforce, compared with 46.7% at the end of 2001.

Marketing and sales expenses. Marketing and sales expenses increased by 3.2% to 169.7 million in 2002, compared with 164.3 million in 2001. This increase is due to a 6% increase in average sales and marketing headcount to support sales growth, partially offset by a lower U.S. dollar and cost cutting initiatives. The growth in marketing and sales expenses includes our investment in connection with our agreement with IBM to share marketing and publicity expenses to market CATIA, ENOVIA and SMARTEAM. See Item 4B: Business Overview Sales and Marketing . Marketing and sales expenses represented 21.9% of total revenue in 2002, compared to 22.0% in 2001.

General and administrative expenses. General and administrative expenses increased 8.4% to 47.9 million in 2002, compared with 44.2 million in 2001, and represented 6.2% of total revenue in 2002, compared with 5.9% in 2001. The increase reflected an increase in professional fees and insurance fees, the impact of

2001 and 2002 acquisitions and a 4% increase in average headcount excluding the impact of 2001 and 2002 acquisitions.

Amortization of intangibles incurred in business combinations. Amortization expenses amounted to 11.1 million in 2002, compared with 58.4 million in 2001. The decrease was due to our adoption of SFAS 141 as of January 1, 2002, pursuant to which goodwill is no longer amortized.

Operating income. Our operating income was 203.0 million in 2002, compared with 162.6 million in 2001. Operating income excluding the amortization of intangibles incurred in business combinations amounted to 214.1 million in 2002, or 27.7% of net revenue, compared with 221.0 million in 2001, or 29.6% of net revenue, a decrease of 3.1%. This decrease is due mainly to the negative impact of the decrease in the value of the Japanese yen and the lower than anticipated revenue resulting from the significant slowdown in the business environment, particularly in the second half of 2002, which was partially offset by cost control initiatives. See Item 11: Quantitative and Qualitative Disclosures About Market Risk .

Financial revenue, investment in equity and other net. Financial revenue, investment in equity and other net amounted to 2.8 million in 2002, compared with 14.1 million in 2001. Our average cash position increased in 2002, particularly at Dassault Systèmes, the parent company, and at SolidWorks. At December 31, 2002, cash and cash equivalents amounted to 388.4 million. The decrease in financial revenue, investment in equity and other net primarily reflects the revaluation of U.S. dollar and Japanese yen denominated assets, the decrease in interest rates and a 3.1 million charge related to our investment in PlanetCad. See Note D to our consolidated financial statements.

Income tax expense. Income tax expense amounted to 79.4 million in 2002, compared with 87.9 million in 2001. Excluding the impact of permanent differences incurred in business combinations, the effective income tax rate was 38.6% in 2002, compared with 42.9% in 2001. The decrease in effective tax rate between 2002 and 2001 came from the approximately 1 percentage point decrease in the French statutory income tax rate and the improvement of the results of our SmarTeam subsidiary. See Note E to our consolidated financial statements.

Net income. We realized net income of 126.4 million in 2002, compared with 88.7 million in 2001. Excluding the amortization of intangibles incurred in business combinations, net income amounted to 136.0 million in 2002, compared with 144.0 million in 2001, a decrease of 5.6%.

Earnings per share. We realized diluted net income per share of 1.09 for the year ended December 31, 2002, compared with 0.76 for the year ended December 31, 2001. Excluding the amortization of intangibles incurred in business combinations, our diluted net income per share amounted to 1.17 in 2002, compared with 1.23 in 2001, a decrease of 4.9%.

Revenue and Operating Income by Segment

Process-centric

Revenue. Revenue for the Process-centric segment, including PDM revenue, increased 5.1% to 649.4 million in 2002 (including 1.7 million of inter-segment sales) compared with 617.8 million in 2001. PDM revenue on a stand-alone basis increased 25% to 82.7 million, up from 65.9 million in 2001.

Software revenue for the Process-centric segment increased 5.6% to 543.6 million in 2002, compared with 514.8 million in 2001. This increase in software revenue mainly reflected the strong growth in software revenue from ENOVIA and SMARTEAM.

A total of 34,308 CATIA licenses were sold in 2002 compared with 33,962 CATIA licenses in 2001, a 1.0% increase. Sales of CATIA V5 licenses increased substantially during 2002, with CATIA V5 licenses accounting for 59% of CATIA licenses sold in 2002 compared with 36% in 2001. Following the release of CATIA V5R9 in June 2002 and V5R10 in October 2002, CATIA V5 licenses sold during the fourth quarter 2002 represented 67% of the overall CATIA license sales. The average CATIA license price declined 5% during 2002 to 15,394. The decrease in the average price per seat in 2002 primarily reflected the increased proportion of the Version 5 licenses sold in 2002 compared to 2001, since the price per Version 5 license is

lower than Version 4 (V4), due to a still less mature product mix. The change in the V5 to V4 proportion had an unfavorable effect on the price, which was partly offset by a higher price per CATIA Version 5 license. V5 price per seat has increased approximately 9% since 2001 to 13,129, reflecting the strong growth of our V5 product solutions. In addition, the lower U.S. dollar to Euro exchange rate also contributed to the decrease in the average price per CATIA seat, accounting for 3 percentage points of the 5% decrease.

During 2002, we continued our investment in PLM. We introduced three new releases during the year, including V5R8 in February 2002, V5R9 in June 2002 and V5R10 in October 2002. Commencing with V5R9, our new releases cover our CATIA, DELMIA, ENOVIA and now SMARTEAM brands. Spatial announced its 3D ACIS Modeler Version 8.0 in May 2002.

Services revenue was generated entirely by the Process-centric segment (excluding inter-segment sales) in 2002 and 2001. See Consolidated Information Revenue above.

Operating income. Operating income from the Process-centric segment totaled 170.9 million in 2002, compared with 126.5 million in 2001. Operating income, excluding amortization of intangibles incurred in business combinations, amounted to 181.8 million in 2002, compared with 184.0 million in 2001, a 1.2% decrease. Operating income, excluding amortization of intangibles incurred in business combinations, represented 28.0% of revenue for this segment in 2002, compared to 29.8% in 2001. This decrease principally reflected lower than anticipated revenue resulting from the significant slowdown in the business environment particularly in the second half of 2002, which was partially offset by cost control initiatives.

Design-centric

Revenue. Revenue in the Design-centric segment was 126.9 million in 2002 (including 0.5 million of inter-segment sales), compared with 128.2 million in 2001. The decrease in revenue net of inter-segment sales was mainly due to the difficult market conditions existing in the Design-centric market, reflecting the weak overall economic environment. In addition, the lower U.S. dollar exchange rate contributed to the decrease in revenue. The number of licenses sold by SolidWorks decreased 9.8% to 23,626 licenses in 2002, compared with 26,183 licenses in 2001.

Operating income. Operating income for the Design-centric segment amounted to 32.1 million in 2002, compared with 36.0 million in 2001. Operating income, excluding amortization of intangibles incurred in business combinations, amounted to 32.3 million in 2002, compared with 37.0 million in 2001. Operating income, excluding amortization of intangibles incurred in business combinations, represented 25.5% of total segment revenue in 2002, compared with 28.8% in 2001, reflecting higher software costs as well as a 2.2% increase in other operating expenses (excluding amortization of intangibles incurred in business combinations).

In 2002, SolidWorks continued to invest in research and development and intensified its efforts in sales and marketing. These expenses increased slightly by 2.4% and 2.6% respectively, from 2001 to 2002.

2001 versus 2000

Consolidated Information

Revenue. Revenue increased 18.0% to 746.1 million in 2001 compared with 632.4 million in 2000. We strengthened our leadership in the mechanical computer-aided-design, -manufacturing and -engineering (CAD/CAM/CAE) market, with our reported market share increasing from 21% in 2000 to 22% in 2001 (Source: Daratech).

Software revenue increased 18.7% to 643.0 million in 2001 compared with 541.7 million in 2000. This increase can be attributed to our entire product range. In 2001, we also benefited from the rise in value of the U.S. dollar, our principal invoicing currency outside the euro-zone, which accounted for 1% of the growth in consolidated revenue. The increase in the value of the dollar also led to a 1.5% increase in our expenditures. The yen is our second most important invoicing currency outside the euro-zone. In 2001, it accounted for a 1%

decrease in the growth in consolidated revenue. The decrease in the value of the yen had a slight impact on expenditures.

Our 15.5% revenue growth in the Process-centric segment was due to the strengthening of Version 5, to new functionalities aimed at widening our 3D PLM offering to new market segment and to the enhancement of our virtual product data management and collaborative offer (PDM) consisting of ENOVIA and SMARTEAM. The revenue growth of this PDM offering (+37.6%) contributed significantly to the growth of the Process-centric segment. Excluding PDM, the Process-centric segment revenue growth was 13.4% in 2001.

Revenue in the Design-centric segment increased by 31.4%, which reflected both our leadership in this segment through SolidWorks and the high growth rate of this segment.

Recurring revenue increased 24.7% in 2001 compared to 2000. Recurring revenue represented 45.4% of software revenue in 2001 compared with 43.2% in 2000. The contribution of recurring revenue to total revenue has remained stable due to the continuous increase in the installed workstation base of the Process-centric segment and to the growing share of recurring revenue fee structures in the Design-centric segment.

Services revenue increased 13.6% to 103.1 million in 2001, compared with 90.7 million in 2000. This increase reflected principally the growth in sales of software applications in the Process-centric segment, because the installation of 3D PLM software applications is accompanied by services for methodological and technical support to improve its usefulness for the customer.

The growth in revenue was 16.1% in the North and South American region and 13.6% in Europe. The American region showed satisfying growth but was seriously reduced during the second half of the year by the economic environment and the impact of terrorism acts of September 11, 2001. Revenue from the Asia-Pacific region increased by 34.6% in euro in 2001 despite the impact of the yen decrease. This growth resulted from the sales and marketing efforts that were maintained despite the crisis of recent years.

Gross Profit. Gross profit increased 17.9% to 638.7 million in 2001 compared with 541.7 million in 2000. This increase reflected principally the sharp rise in our software revenue. Gross margin remained stable, going from 85.7% in 2000 to 85.6 % in 2001. This stability in gross margin reflected an increase in investment in third-party component software, compensated by a slightly different distribution between software and service activities, 86.2% and 13.8% respectively in 2001 compared with 85.7% and 14.3% in 2000. Software cost of revenue increased 39.1% in 2001. The gross profit for software increased to 96.8% in 2001 compared with 97.2% in 2000. Gross profit for services represented 16.0% in 2001 compared with 16.5% in 2000.

Research and development expenses. Research and development expenses increased by 23.2% to 209.2 million in 2001 compared with 169.8 million in 2000. This increase was largely due to the 16.2% increase in research and development staff due to the on-going development of the V5 architecture and its related 3D PLM software applications, as well as to the acquisition of Spatial in November 2000. As a percentage of total revenue, research and development expenses increased to 28.0% of revenue in 2001, compared with 26.8% in 2000. On December 31, 2001, the total headcount involved in research and development represented 46.7% of our total workforce, compared with 49.0% at the end of 2000.

Marketing and sales expenses. Marketing and sales expenses increased by 39.9% to 164.3 million in 2001, compared with 117.5 million in 2000. Marketing and sales expenses consisted mainly of personnel costs, travel expenses and marketing infrastructure costs, such as computer and office rental expenses, as well as sales commissions for our direct distribution network, principally at SolidWorks, SmarTeam and Delmia. The increase in marketing and sales expenses reflected the 27.7% increase in sales headcount, particularly at Spatial (integrated for the first time for a full year) as well as SmarTeam, Delmia and SolidWorks. It also reflected our agreement with IBM, established in early 2000 and renewed in 2001, to share marketing and publicity expenses to market CATIA and ENOVIA. See Item 4B: Business Overview Sales and Marketing .

General and administrative expenses. General and administrative expenses increased 24.8% to 44.2 million in 2001, compared with 35.4 million in 2000. They accounted for 5.9% of total revenue in 2001, compared with 5.6% in 2000.

Amortization of intangibles incurred in business combinations. Amortization expenses amounted to 58.4 million in 2001, compared with 40.2 million in 2000. Amortization of intangibles incurred in business combinations includes expense for research and development projects that have not reached the technological feasibility stage or are considered to have no future value; amortization of goodwill; and amortization of technology acquired in connection with business combinations. See Note I to our consolidated financial statements.

Operating income. Our operating income, including the amortization of intangibles incurred in business combinations, was 162.6 million in 2001, compared with 178.8 million in 2000. Operating income excluding the amortization of intangibles incurred in business combinations amounted to 221.0 million in 2001, compared with 218.9 million in 2000, an increase of 0.9%.

Financial revenue and other net Financial revenue and other net amounted to 14.1 million in 2001, compared with 11.0 million in 2000. Our average cash position increased in 2001, particularly at Dassault Systèmes, the parent company, and at SolidWorks. The increase of financial revenue should be linked to both the increase of cash and the decrease in interest rates in Europe and in the U.S. The Euribor 3-month interest rate averaged 4.2636% in 2001 compared with 4.3908% in 2000. The Libor 3-month interest rate averaged 3.7744% in 2001 compared with 6.5309% in 2000. In 2001, we maintained our hedging policy to guard against a possible fall in the value of the U.S. dollar and the yen by purchasing and selling currency options.

Income tax expense. Income tax expense amounted to 87.9 million in 2001, compared with 86.1 million in 2000. Excluding the impact of permanent differences incurred in business combinations, the effective income tax rate was 42.9% in 2001, compared with 42.1% in 2000. The increase in the effective tax rate between 2001 and 2000 came from the special tax treatment of the Israeli subsidiary, SmarTeam. It was partially compensated by the decrease in the French income tax rate. See Note E to our consolidated financial statements.

Net income. We realized net income of 88.7 million in 2001, compared with 103.7 million in 2000. Excluding the amortization of intangibles incurred in business combinations, net income amounted to 144.0 million in 2001, compared with 139.2 million in 2000, an increase of 3.4%.

Earnings per share. We realized diluted net income per share of 0.76 for the year ended December 31, 2001, compared with 0.87 for the year ended December 31, 2000. Excluding the amortization of intangibles incurred in business combinations, our diluted net income per share amounted to 1.23 in 2001, compared with 1.17 in 2000, an increase of 5.1%.

Revenue and Operating Income by Segment

Process-centric

Revenue. Revenue for the Process-centric segment increased 15.5% to 617.9 million in 2001 compared with 534.8 million in 2000. Software revenue increased 15.9% to 514.8 million in 2001, compared with 444.1 million in 2000. This increase in software revenue reflected principally higher sales of CATIA licenses (+13.4%) and a strong increase in revenue (+37.6%) from ENOVIA and SMARTEAM product data management (PDM) licenses.

A total of 33,962 CATIA licenses were sold in 2001 compared with 31,290 CATIA licenses in 2000, an 8.5% increase. Sales of CATIA V5 licenses increased substantially during 2001 CATIA V5 licenses accounted for 36.5% of CATIA licenses sold in 2001 compared with 15.1% in 2000. Following the release of CATIA V5R7 in June 2001, CATIA V5 licenses sold over the fourth quarter 2001 represented 44.5% of the overall CATIA license sales. Average net sale prices declined during 2001 due to various elements: a product mix effect from strengthening CATIA V5, and the fact that on the high end segment, the price per V5 seat

remained lower than the V4 price per seat, because all the CATIA functionalities were not yet available on the V5 platform. See Item 4B: Business Overview .

The increase in Process-centric revenue also reflected a 23.6% rise in recurring revenue from the growth of the installed base. Recurring revenue represented 47.4% of software revenue in this segment in 2001, compared with 44.9% in 2000.

During 2001, we continued our investment in 3D PLM. We introduced two new releases of CATIA Version 5 (V5R6 in March 2001 and V5R7 in June 2001), which added up to 97 products at the end of 2001. Sales of product data management (PDM) applications increased as the ENOVIA and SMARTEAM product range expanded. DELMIA launched Version 5 Release 7 (V5R7) of its digital manufacturing solutions. This V5R7 release is the first one that provides full integration of DELMIA application with our other 3D PLM brands.

Services revenue was generated entirely by the Process-centric segment in 2001 and 2000. See Consolidated Information Revenue above).

Operating income. Including amortization of intangibles incurred in business combinations, operating income from the Process-centric sector totaled 126.6 million in 2001, compared with 150.9 million in 2000. Operating income, excluding amortization of intangibles incurred in business combinations, amounted to 184.0 million in 2001, compared with 190.9 million in 2000, a 3.7% decrease. Operating income, excluding amortization of intangibles incurred in business combinations, represented 29.8% of revenue for this segment in 2001, compared with 35.7% in 2000. This decrease reflected principally the increase in marketing costs, which represented 19.0% of total revenue in 2001, compared with 14.8% in 2000, as a result of the expansion of SmarTeam and Spatial marketing teams and investment in marketing and communication costs undertaken with IBM.

Design-centric

Revenue. Revenue in the Design-centric segment increased 31.4% to 128.2 million in 2001, compared with 97.6 million in 2000. The increase in revenue was mainly due to the increase in the number of licenses sold by SolidWorks, which totaled 26,183 licenses in 2001, compared with 22,053 licenses in 2000, an increase of 18.7%, as well as a 38.9% rise in recurring revenue. Recurring revenue represented 37.3% of total revenue in 2001, compared with 35.2% in 2000. Revenue from Europe increased 30.4% in 2001 and from the Asia-Pacific region by 66.8%. These increases were greater than in North America (+17.1%), where SolidWorks has been present for a longer time.

Operating income. Including amortization of intangibles incurred in business combinations, operating income for the Design-centric segment amounted to 36.0 million in 2001, compared with 27.9 million in 2000. Operating income, excluding amortization of intangibles incurred in business combinations, amounted to 37.0 million in 2001, compared with 28.0 million in 2000. Operating income, excluding amortization of intangibles incurred in business combinations, represented 28.8% of total segment revenue in 2001, compared with 28.6% in 2000, with growth in revenue (up 31.4%) exceeding growth in operating costs excluding amortization of intangibles incurred in business combinations (up 31.3%).

In 2001, SolidWorks continued to invest in research and development and intensified its efforts in sales and marketing. These expenses increased by 45.3% and 22.7% respectively, from 2000 to 2001.

Analysis of Quarterly Results

The tables below present certain financial information for 2002 and 2001. This information comes from our unaudited quarterly consolidated financial statements, which are prepared according to generally accepted accounting principles in the United States and on a comparable basis with our annual audited consolidated financial statements. In the opinion of management, the quarterly financial information includes only the normal adjustments recurring and necessary for a fair presentation of the information. Operating income for any given quarter is not necessarily representative of results for any future period and should not be used as an indication of future results.

Quarterly Data

	2002				2001			
	Dec. 31	**Sept. 30**	**June 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**
	(in millions of euro or shares, except for amounts per share which are expressed in euro)							
Revenue:								
Software revenue	194.4	149.5	166.7	159.3	191.7	155.3	151.3	144.7
Service and other revenue	30.0	26.4	24.6	23.2	33.6	23.5	25.6	20.4
Total revenue	224.4	175.9	191.3	182.5	225.3	178.8	176.9	165.1
Cost of revenue:								
Software	(6.4)	(6.3)	(4.8)	(6.9)	(5.8)	(4.9)	(4.8)	(5.3)
Service and other	(28.2)	(23.9)	(23.5)	(20.8)	(28.4)	(19.8)	(21.6)	(16.8)
Total cost of revenue	(34.6)	(30.2)	(28.3)	(27.7)	(34.2)	(24.7)	(26.4)	(22.1)
Gross profit	**189.8**	**145.7**	**163.0**	**154.8**	**191.1**	**154.1**	**150.5**	**143.0**
Research, selling and administrative expenses:								
Research and development	(54.6)	(53.5)	(56.3)	(57.2)	(57.2)	(51.5)	(51.6)	(48.9)
Marketing and sales	(41.0)	(41.4)	(44.9)	(42.4)	(41.2)	(43.6)	(40.3)	(39.3)
General and administrative	(10.7)	(12.0)	(12.7)	(12.5)	(11.7)	(10.8)	(11.5)	(10.2)
Amortization of goodwill	0.0	0.0	0.0	0.0	(9.2)	(9.5)	(16.0)	(9.4)
Amortization of acquired technology	(2.1)	(2.5)	(2.6)	(3.9)	(3.9)	(4.1)	(2.9)	(3.3)
Total research, selling and administrative expenses	(108.4)	(109.4)	(116.5)	(116.0)	(123.2)	(119.5)	(122.3)	(111.1)
Operating income	81.4	36.3	46.5	38.8	67.9	34.6	28.2	31.9
Financial revenue and other net	(1.8)	0.7	(0.7)	4.6	4.3	(1.0)	5.8	5.0
Income before income taxes	**79.6**	**37.0**	**45.8**	**43.4**	**72.2**	**33.6**	**34.0**	**36.9**
Income tax expense	(28.2)	(15.0)	(18.1)	(18.1)	(30.1)	(18.5)	(21.4)	(18.0)
Net income	51.4	22.0	27.7	25.3	42.1	15.1	12.6	18.9
Basic income per share	0.45	0.19	0.24	0.22	0.37	0.13	0.11	0.17
Diluted net income per share	0.45	0.19	0.24	0.21	0.36	0.13	0.11	0.16
Weighted average number of common shares outstanding	114.2	114.2	114.1	114.0	113.9	113.9	113.6	113.3
Diluted weighted average number of common shares outstanding	114.7	115.0	117.1	118.1	117.1	115.1	116.9	117.5
Pro forma excluding amortization of intangibles incurred in business combinations:(1)								
Operating income	83.5	38.8	49.1	42.7	81.1	48.2	47.1	44.6
Net income	53.2	24.3	30.0	28.5	54.8	28.3	31.0	29.9
Diluted net income per share	0.46	0.21	0.26	0.24	0.47	0.25	0.27	0.25

(1) We believe that this supplemental information is an important indicator of operational strength and performance of our business and is used by analysts, investors and other interested parties. However, operating income, net income and diluted net income per share excluding amortization of intangibles incurred in business combinations is not a U.S. generally accepted accounting principles measurement and should not be considered as an alternative to amounts reported under U.S. generally accepted accounting principles.

42

Quarterly Data (as a percent of total revenue)

	2002				2001			
	Dec. 31	**Sept. 30**	**June 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**
Revenue:								
Software revenue	86.6	85.0	87.1	87.3	85.1	86.9	85.5	87.6
Service and other revenue	13.4	15.0	12.9	12.7	14.9	13.1	14.5	12.4
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenue:								
Software	(2.9)	(3.6)	(2.5)	(3.8)	(2.6)	(2.7)	(2.7)	(3.2)
Service and other	(12.6)	(13.6)	(12.3)	(11.4)	(12.6)	(11.1)	(12.1)	(10.3)
Total cost of revenue	(15.4)	(17.2)	(14.8)	(15.2)	(15.2)	(13.8)	(14.9)	(13.4)
Gross profit	**84.6**	**82.8**	**85.2**	**84.8**	**84.8**	**86.2**	**85.1**	**86.6**
Research, selling and administrative expenses:								
Research and development	(24.3)	(30.4)	(29.4)	(31.3)	(25.4)	(28.8)	(29.2)	(29.6)
Marketing and sales	(18.3)	(23.5)	(23.5)	(23.2)	(18.3)	(24.4)	(22.8)	(23.8)
General and administrative	(4.8)	(6.8)	(6.6)	(6.8)	(5.2)	(6.0)	(6.5)	(6.2)
Amortization of goodwill	0.0	0.0	0.0	0.0	(4.1)	(5.3)	(9.1)	(5.7)
Amortization of acquired technology	(0.9)	(1.4)	(1.4)	(2.1)	(1.7)	(2.3)	(1.6)	(2.0)
Total research, selling and administrative expenses	(48.3)	(62.2)	(60.9)	(63.6)	(54.7)	(66.8)	(69.2)	(67.3)
Operating income	36.3	20.6	24.3	21.3	30.1	19.4	15.9	19.3
Financial revenue and other net	(0.8)	0.4	(0.4)	2.5	1.9	(0.5)	3.3	3.0
Income before income taxes	**35.5**	**21.0**	**23.9**	**23.8**	**32.0**	**18.8**	**19.2**	**22.3**
Income tax expense	(12.6)	(8.5)	(9.5)	(9.9)	(13.4)	(10.3)	(12.1)	(10.9)
Net income	22.9	12.5	14.5	13.9	18.7	8.5	7.1	11.5
Pro forma excluding amortization of intangibles incurred in business combinations:(1)								
Operating income	37.2	22.1	25.7	23.4	36.0	27.0	26.6	27.0
Net income	23.7	13.8	15.7	15.6	24.3	15.9	17.5	18.1

(1) We believe that this supplemental information is an important indicator of operational strength and performance of our business and is used by analysts, investors and other interested parties. However, operating income and net income excluding amortization of intangibles incurred in business combinations is not a U.S. generally accepted accounting principles measurement and should not be considered as an alternative to amounts reported under U.S. generally accepted accounting principles.

Revenue for the fourth, third, second and first quarters of 2002 respectively, represented 29.0%, 22.7%, 24.7% and 23.6% of total revenue for 2002 compared with our revenue for the fourth, third, second and first quarters of 2001 which represented respectively 30.2%, 24.0%, 23.7% and 22.1% of our total revenue for that year.

Quarterly operating results varied significantly and are likely to vary significantly in the future, depending on factors such as foreign currency exchange rates; the number, timing and significance of product enhancements or new products by us or our competitors; our ability to

develop, introduce, and market new and enhanced versions of our products; customer order deferrals in anticipation of new or enhanced products; the timing of revenue recognition under our marketing and sales agreement with IBM; general conditions in the product lifecycle management software market, computer industries and regional economies; and other factors and events. A significant portion of sales typically occurs in the last month of each quarter. Therefore, the timing of orders and shipments, including unexpected delays, or actions taken by competitors in reducing prices or introducing new products, could result in significant quarterly fluctuations in operating results.

As is typical in the product lifecycle management software market, we normally experience our highest licensing activity for the year in December. Software revenue, total revenue, operating income and net income have generally been highest in the fourth quarter of each year.

B. Liquidity and Capital Resources.

Since 1994, our principal source of liquidity has been cash from operations. Cash obtained from operations has been used primarily for working capital, short-term investments, dividend payments and, since 1997, the financing of business acquisitions.

Cash equivalents and short-term investments totaled 388.4 million as of December 31, 2002, compared with 369.2 million and 274.2 million as of December 31, 2001, and December 31, 2000, respectively. The 2002 increase reflects net cash provided by operating activities. During 2002, cash provided by operating activities amounted to 142.8 million compared with 159.2 million during 2001. 76 million of this cash was used for investments, acquisitions and loans, including the convertible loans to RAND Worldwide (20 million at the average rate of exchange for 2002), the purchase of the remaining minority interests in SmarTeam (13.8 million) and, with regard to ImpactXoft, a loan of 5.3 million and an equity investment of 10.6 million. Cash from investment activities included 10.1 million from the sale of Revit. Dividends paid in 2002 totaled 37.6 million, compared with 35.1 million in 2001.

In April 2002, we signed an agreement with RAND A Technology Corporation, operating as RAND Worldwide, to significantly expand the development of the marketing, sales and services infrastructure required to support our PLM solutions. Under the terms of this agreement, we granted two 10-year convertible loans, aggregating 20 million, to RAND Worldwide (19 million at the December 31, 2002 year-end exchange rate), one-third of which may be converted at our option into common shares of RAND Worldwide and two-thirds of which may be converted at RAND Worldwide s discretion. RAND Worldwide has the right to increase the loans to $25 million in the aggregate, subject to meeting certain contractual conditions; if the loans are increased to $25 million in the aggregate, the options to convert the loans into shares of RAND Worldwide would be shared 50-50 by RAND Worldwide and by us. Under the terms of this financing, Dassault Systèmes equity position in RAND Worldwide would represent no more than 19.9% of the shares outstanding.

In September 2002, we invested 10.6 million in ImpactXoft, corresponding to an equity position of 15%. In addition, we granted a 5.3 million loan to the company. ImpactXoft is a private, venture-funded software company, which has developed a revolutionary functional modeling technology offered as a stand-alone product, as well as to be integrated into our portfolio of PLM solutions.

In 2002, we instituted a buyback plan for SolidWorks shares held by SolidWorks employees, resulting from the exercise of employee stock options. Based on the current price per share and assumptions about the holding period, we estimate that the potential future cash outlay for the multi-year buyback plan would be 27.6 million. See Note O to our consolidated financial statements.

Under the marketing and sales agreement with IBM, IBM is required to pay us a cash settlement one month after it records its licensing activity. However, due to holidays and other factors, such payments are not always received precisely within the one-month period. Delays that cause a payment to be made in a subsequent accounting period can lead to noticeable variations in the balance of accounts receivable on any given balance sheet date.

We have no significant capital expenditure requirements, no financial indebtedness other than financial leases relating to our offices, and no lines of credit. Management believes that currently available sources of liquidity will provide sufficient resources for its operations for the foreseeable future.

C. Research and Development, Patents and Licenses.

Research and Development

We believe that research and development is the most important element of our success. We operate research laboratories in France, the United States, Canada, Germany, Israel and India. The table below sets forth information with respect to our research and development expenses for 2002, 2001 and 2000.

	Year ended December 31,		
	2002	2001	2000
Expenses (in millions)	221.6	209.2	169.8
As a percentage of total revenue(1)	28.7%	28.0%	26.8%
Research and development personnel (at period end)	1,907	1,796	1,571

(1) Due to the distribution of our products through IBM, our percentage of various expenses, including research and development expenses, and other line items to revenue may not be comparable to such percentages for our competitors. See the discussion under Item 5A: Operating Results Overview and Results of Operations .

In 2002, research and development expenses amounted to 221.6 million, an increase of 5.9% compared to 2001. Research and development investments have been devoted principally to accelerating the development of CATIA, DELMIA and ENOVIA product lifecycle management applications on the V5 architecture, the ongoing improvement of our existing product range and providing 3D technologies and components.

Our expenses for research and development include primarily the personnel cost for specialists in software architecture and various application fields such as mechanical design, manufacturing, mechanical engineering and computer graphics, as well as for specialists with significant experience and knowledge of our target industrial sectors. Research and development expenses also include computer rental expenses, the depreciation and cost of maintenance related to computer hardware used in research and development, development tools, networking and communication expenses. For a discussion of the variation in research and development expenses between the periods indicated, see the discussion under Operating Results 2002 versus 2001 Consolidated Information Research and Development Expenses and 2001 versus 2000 Consolidated Information Research and Development Expenses , above.

Intellectual Property

We rely on a combination of contracts, copyrights, trade secret laws and patents to establish and protect our proprietary rights in our technology. We distribute our products under software licenses, which grant customers licenses to, rather than ownership of, our products and which contain various provisions protecting our ownership and confidentiality of the licensed technology.

The source code of our products is protected as a trade secret and as an unpublished copyright work and in certain instances with a patent. However, no assurance can be given that others will not copy or otherwise obtain and use our products or technology without authorization. In addition, effective copyright, trade secret and patent protection or enforcement may be unavailable or limited in certain countries.

We believe that, due to the rapid technological advances within the industry, factors such as the technological and creative skills of our personnel are more important to establishing and maintaining a technology leadership position within the industry than are the various legal protections of the technology.

With regard to trademarks, our policy is to register trademarks for our main lines of products, in the countries where we do business. Such registrations are a combination of international registration (Madrid Agreement and Madrid Protocole), Community trademarks and national registrations. When companies are acquired, a review and an assessment is made on the main trademarks, and when necessary, additional applications for registrations are made in order to have coverage of such trademarks equivalent to that of our other main trademarks. See Item 3D: Risk Factors Risks Related to Our Business .

With regard to patents, we generally file patent applications in Europe, the United States, Canada and Japan, regions where the majority of our customers and competitors are located. Our portfolio includes 19 patents already granted (7 were granted in 2002) and approximately 35 patent applications filed in each of the above-mentioned areas (that is, nearly 140 applications pending).

D. Trend Information.

Recent Developments

Total revenue in the first quarter of 2003 was 169.4 million, a decrease of 7% compared to 182.5 million in the first quarter of 2002. On a constant currency basis, total revenue increased 1% in the first quarter of 2003. Software revenue was 145.1 million in the first quarter of 2003 and represented 86% of total revenue. In comparison to the year-ago quarter, software revenue decreased 9%, or 1% on a constant currency basis. Recurring software revenue continued to be an important component of software revenue and represented 55% of total software revenue in the first quarter of 2003, compared to 49% in the first quarter of 2002. Seats licensed in the quarter totaled 12,917 with 6,874 CATIA and 6,043 SolidWorks seats. In the year-ago quarter, 14,199 seats were licensed, comprised of 8,324 CATIA and 5,875 SolidWorks seats. Service and other revenue increased 5% to 24.3 million and represented 14% of total revenue.

Net income was 22.3 million or 0.20 per diluted share in the first quarter of 2003, compared to 25.3 million or 0.21 per diluted share in the first quarter of 2002, representing a per share decrease of 5%. Excluding the amortization of acquired technology, our net income was 24.2 million or 0.21 per diluted share in the first quarter of 2003, a 13% decrease on a per share basis compared to 28.5 million or 0.24 per diluted share in the 2002 first quarter.

At March 31, 2003, cash and short-term investments totaled 459.6 million.

Outlook

In 2003, we will continue to build our strategy around our two axes: PLM and 3D for all .

Our CATIA, DELMIA, ENOVIA and SMARTEAM brands are our solutions for PLM. In this market, we have two releases planned for 2003 including V5R11, which was released in April of 2003. From a technology perspective, we are looking to extend our PLM integration, to offer new functionality based upon knowledgeware and collaboration, as well as to introduce further technological advances in such areas as modeling and simulation, for example. We believe these new releases are designed to further enhance the success of large deployments and position us better to penetrate the automotive and aerospace supply chains. In order to better enhance our PLM penetration, we have decided to make further investments in the development of best practices methodologies that are designed to strengthen our service offerings for our target industrial sectors.

Due to the V5 platform and the partnerships that the V5 platform make possible, we will continue to provide product and data management solutions for end-users to optimize the creation, manufacturing and maintenance processes for their industrial products, as well as a development environment and software components that meet the needs of our technology partners and many software providers. Industries willing to implement a PLM solution will then benefit from a broad and fully integrated software offer, as it is developed on the V5 platform.

In addition to the fact that 3D representation has become an important communication tool in the PLM market, we are also focused on addressing the Design-centric market for customers who wish to also design their products in 3D. We address this market with our SolidWorks brand. In the Design-centric market, SolidWorks has one new release planned for 2003.

Based upon our results for the first quarter and information currently available, our revenue objective for 2003 on a constant currency basis is to target similar growth to the 7% (in constant currencies) achieved in 2002. Assuming a U.S. dollar to euro exchange rate of $1.10 per 1.00, our actual revenue would be expected to be similar to or slightly higher than the 774 million reported in 2002. Our earnings per share (EPS) objective for 2003 is approximately 1.18, or 8% growth compared to our 2002 EPS of 1.09. Excluding the amortization of acquired technology, our EPS objective for 2003 is 1.25, a 7% increase compared to our 2002 EPS of 1.17 excluding the amortization of acquired technology. We believe that our operating margin in 2003 could see an improvement of up to one percentage point compared to 2002.

Management believes that we are well positioned to gain market share in our principal markets due to the competitive strengths of our products, technology and the growth of our extended enterprise network. Our financial results will remain subject to any further weakening of general economic conditions as well as currency fluctuations. See Item 3D: Risk Factors Risks Related to Our Business Current economic, political and business conditions may lead to the continuation of the significant slowdown or reduction in corporate spending on information technology infrastructure... and Currency fluctuations may significantly affect our results of operations... .

Management s beliefs and expectations set forth in the preceding paragraphs constitute forward-looking statements subject to risks and uncertainties. These forward-looking statements are based on management s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated or expected. Factors which could cause actual results to differ include a continuing general economic decline and/or a further reduction in the level of corporate investment in information technology infrastructure; currency fluctuations, particularly the value of the dollar or yen with respect to the euro; unanticipated difficulties in our relationship with IBM as the principal distributor of our products; growth in market share by our competitors; and other factors, all as set forth under Item 3D: Risk Factors .

Item 6: Directors, Senior Management and Employees.

A. Directors and Senior Management.

In accordance with our *statuts* and French company law, our affairs are managed by our board of directors and our Chief Executive Officer (*Directeur Général*). As permitted under French law and as provided for in our *statuts*, the functions of Chairman of the board of directors and of Chief Executive Officer have been separated between two different persons by decision of the board of directors.

Directors

Our board of directors determines our business strategies and oversees their implementation. Under French law, the board of directors is also responsible for, among other things, the presentation of the annual and consolidated accounts to the shareholders and for convening the general shareholders meeting to approve such accounts. In addition, the board of directors must give prior authorization for any security, pledge or guarantee by the Company. Under French law and our *statuts*, directors are liable for violation of French legal or regulatory requirements applicable to *sociétés anonymes*, for the violation of our *statuts* or for mismanagement. A director may be held liable for such actions both individually and jointly with the other directors.

Our *statuts* provide that, generally, the board of directors must consist of three to fifteen directors at any time. Only the shareholders can increase the size of the board of directors. Members of the board are elected by the shareholders at an ordinary general shareholders meeting to serve six-year terms and may be re-elected for consecutive terms. Directors serve until the expiration of their respective terms, or until their resignation, death or removal, with or without cause by the shareholders. Under certain conditions, the board of directors may fill its vacancies until the subsequent shareholders meeting. At no time may the number of directors exceeding the age of 70 years constitute more than one-half of the board of directors. The Chairman may not be more than 75 years old.

The following table sets forth the names and birth dates of our current directors, their principal occupation or employment, the dates of their initial election as directors and the years of expiration of their current terms.

Name	Date of Birth	Principal Occupation or Employment	Director Since	Term Expires
Charles Edelstenne*	January 9, 1938	Chairman of Dassault Systèmes. Chairman and Chief Executive Officer of Dassault Aviation. Director of the following companies: Groupe Industriel Marcel Dassault; Thales Systèmes Aéroportés; Société Anonyme Belge de Constructions Aéronautiques; Sogitec Industries; European Aerosystems Ltd; and Dassault Réassurance. Chairman of Dassault Falcon-Jet Corporation; and Dassault International, Inc.	1993	2005
Paul Brown***	July 14, 1950	Chairman of the Accounting, Taxation and Business Law Department of the Leonard N. Stern Business School at New York University.	2000	2005
Bernard Charlès*	March 30, 1957	President and Chief Executive Officer of Dassault Systèmes. Chairman of the following companies: Dassault Data Services; Delmia Corp.; Enovia Corporation.; and SolidWorks Corporation. Director of the following companies: Dassault Systemes Corp.; Dassault Systemes K.K.; SmarTeam Corporation Ltd.; and Business Objects.	1993	2005
Laurent Dassault	July 7, 1953	Chairman of the following companies: Dassault Belgique Aviation, Midway Aircraft Company, Dassault Falcon Jet do Brazil. Director of the following companies: Groupe Industriel Marcel Dassault; Sogitec Industries; Power Corporation du Canada; Pechel Industries; Generali France; Kudelski SA; Banque Privée Edmond de Rothschild Luxembourg; Compagnie Nationale à Portefeuille; Terramaris; Fingen SA; BSS Investment SA; Dassault Procurement Services; NAFCO National Aerospace Stener Company; Chenfeng Machinery; Aero Precision Repair and Overhaul Company A-pro . *Directeur Général Délégué* of Immobilière Dassault. General Manager of the following companies: Dassault Investissements and Château Dassault. Member of the Supervisory Board of Eurazeo. Member of the Advisory Board of Syntek Capital SA. Member of the Advisory Committee of Power Private Equity Fund. President of the following companies: Dassault Investment Fund Inc. and Vina Totihue SA.	1993	2005

Name	Date of Birth	Principal Occupation or Employment	Director Since	Term Expires
Christian Decaix	January 5, 1937	Executive Vice President Social and Industrial Operations of Dassault Aviation. Director of the following companies: Sogitec Industries; Dassault Falcon Jet Corporation; Dassault Réassurance; and EuropeanAerosystems Ltd.	1993	2005
Bernard Dufau**	April 24, 1941	Strategic counsel and general manager of B. Dufau Conseil. Director of France Telecom	2001	2007
André Kudelski**	May 25, 1960	President and Chief Executive Officer of the Kudelski group. Chairman of Nagra +. Director of the following companies: Nestlé; Edipresse; and Swiss Airlines Ltd. Member of the Swiss Advisory Board of Crédit Suisse.	2001	2007
Loïk Segalen	March 27, 1960	Vice President Economic and Financial Affairs of Dassault Aviation. Chairman and Chief Executive Officer of Dassault Assurances Courtage. Chairman of Dassault Réassurance. Director of the following companies: Dassault Belgique Aviation; Paris Le Bourget Parc des Expositions; and Midway Aircraft Instrument Corporation. General Manager of Dassault Aéro Service. Permanent Representative of Dassault Aviation to the board of directors of Corse Composites Aéronautiques.	1993	2005
Thibault de Tersant*	July 22, 1957	Executive Vice President Finance and Legal and Chief Financial Officer of Dassault Systèmes. Director of the following companies: SolidWorks Corporation, Delmia Corp.; Dassault Systemes Corp.; Enovia Corp.; and SmarTeam Corporation Ltd;	1993	2005

* Member of the Ad-hoc Committee.
** Member of the Audit Committee.
*** Audit Committee Financial Expert.

Meetings of the board of directors are normally convened by the Chairman of the board of directors and are to be held as often as required in the corporate interest. A quorum consists of at least one-half of the members of the board of directors. Decisions are made by majority vote of the members present, deemed to be present or duly represented by other members of the board of directors. A director may not vote on an arrangement or contract in which he or she is materially interested; if he or she does vote, the decision will be void. Our *statuts* permit any director to attend, participate in and vote at any meeting by videoconference for certain decisions as provided by French law.

Our directors have not entered into any service contracts with our company or any of its subsidiaries providing for benefits upon termination of employment. Each director must own at least one of our shares throughout his term in office.

Audit Committee. The Audit Committee was established in 1996 to assist our board of directors in overseeing the quality and integrity of our financial statements and the financial reporting process, our internal accounting and financial control systems, and our compliance with legal and regulatory requirements. Since September 2002, the Audit Committee has been fully comprised of independent directors.

On March 27, 2003, the board of directors revised the Audit Committee charter to comply with the new requirements under the United States Sarbanes-Oxley Act of 2002. In accordance with the new charter, the primary responsibility of the Audit Committee is to oversee our financial reporting process on behalf of the board of directors and report the results of its activities to the board. The Audit Committee assesses the independence of the external auditors of our financial statements and recommends to the board of directors their appointment and termination (subject to shareholder ratification under French law). In connection with this process, the Audit Committee recommends the external auditors compensation and discusses with them the scope of the audit, has the authority to pre-approve all audit-related and non-audit related services provided by the independent auditors, and discusses with the independent auditors all critical accounting policies used in connection with the preparation of the financial statements. At the end of each fiscal year, the Audit Committee reviews the audited annual consolidated financial statements before it gives its report to the board of directors.

The Audit Committee also supervises our internal audit and discusses with management, the internal auditors, and the independent auditors the adequacy and effectiveness of our accounting and financial controls, including our policies and procedures to assess, monitor and manage business and financial risk. At the end of each year, the committee reviews management s assessment of the effectiveness of internal controls and the independent auditors report on management s assessment. The Audit Committee met twice in 2002.

Ad-hoc Committee. The Ad-hoc Committee was established in 1996 to assist the board of directors by preparing and submitting to the board proposals regarding the creation and elements of stock option plans available to our employees.

Director Biographies

Charles Edelstenne founded Dassault Systèmes in 1981 and was our Managing Director until we were transformed into a *société anonyme* in 1993. From 1993 to 2002, Mr. Edelstenne was our Chairman and Chief Executive Officer. He is still our Chairman. Mr. Edelstenne also serves the positions mentioned under Directors and Senior Management Principal Occupation or Employment. Mr. Edelstenne devotes the majority of his time to his duties at Dassault Aviation.

Bernard Charlès has been our Chief Executive Officer since 2002, our President since 1995 and one of our directors since 1993. Mr. Charlès also serves the positions mentioned under Directors and Senior Management Principal Occupation or Employment. Prior to becoming our President, Mr. Charlès served as our President of Research and Development from 1988 to 1995 and as President of Research and Strategy from 1985 to 1988.

Thibault de Tersant has been our Executive Vice President Finance and Legal and Chief Financial Officer since 1988 and one of our directors since 1993. Mr. de Tersant also serves the positions mentioned under Directors and Senior Management Principal Occupation or Employment. Prior to joining us, Mr. de Tersant served as a finance executive at Dassault International.

Paul Brown has been a certified public accountant in Pennsylvania since 1974. He is a professor in the Accounting, Taxation and Business Law Department of the Leonard N. Stern Business School at New York University as well as the Chair of the department since 1997. He has also worked at the Yale School of Management, the INSEAD and the International University of Japan. Mr. Brown has also worked for Arthur Andersen & Co. and for the Financial Accounting Standards Boards (FASB). He is also a consultant for numerous financial enterprises.

Laurent Dassault joined the Groupe Industriel Marcel Dassault in 1992 and serves as executive or director in its French and foreign subsidiaries. Mr. Dassault is the Chairman and Chief Executive Officer and Managing Director (*Directeur Général Délégué*) of Immobilière Dassault. Prior to holding these positions, Mr. Dassault participated in the purchase by Paribas, in 1990, of Banque Parisienne Internationale and worked at Banque Vernes and at Banque Industrielle et Commerciale du Marais between 1977 and 1992.

Christian Decaix has been Executive Vice President Social and Industrial Operations of Dassault Aviation since 1998. From 1992 to 1998, Mr. Decaix was the Executive Vice President of Industrial

Operations of Dassault Aviation. Mr. Decaix first joined Dassault Aviation in 1962 and served as an engineer (*Ingénieur d Études*).

Bernard Dufau has been strategic counsel at B. Dufau Conseil since 2001. Mr. Dufau served as Chairman and Chief Executive Officer of IBM France from 1996 to 2001 and Chairman of the Management Board of IBM France from 1995 to 1996. He was Managing Director of the Distribution Division of IBM Europe in 1994, Chief Operating Officer of IBM France from 1992 to 1994, Sales Director of IBM France from 1989 to 1992. In the past years, he has also served as Marketing Director of IBM France, Director of Support and Services Strategy of IBM Europe, Director of Development and Information Technology of IBM France, and Marketing Manager of the Public sector and Insurance of IBM France. Mr. Dufau first joined IBM France in 1966 and served as Head of Division and Director of the Northern region of IBM France.

André Kudelski has been President and Chief Executive Officer of the Kudelski Group since 1991, and Chairman of Nagra +, a joint-venture of Kudelski SA and Canal + since 1992. Mr. Kudelski was Managing Director of Nagravision, the pay-TV division of Kudelski SA from 1989 to 1990 and Product Manager for pay-TV products, Kudelski SA. He first joined Kudelski SA in 1984 as a research and development engineer.

Loïk Segalen has been Vice President of Economic and Financial Affairs of Dassault Aviation since 1999. Mr. Segalen was Deputy Manager to the Vice President of Economic and Financial Affairs of Dassault Aviation from 1998 to 1999, and Financial Advisor to the Vice President of Economic and Financial Affairs of Dassault Aviation from 1990 to 1998. Prior to serving in these positions, Mr. Segalen served as an executive in the Finance Division at Dassault International.

Executive Officers

The Chief Executive Officer has full executive authority to manage our affairs and has broad powers to act on our behalf within our corporate purpose and to represent us in dealings with third parties. These powers of the Chief Executive Officer are subject only to the powers expressly reserved to the board of directors or shareholders by law or by our *statuts*, and are subject to prior authorization of the board of directors or the general shareholders meeting for the decisions specified by French law.

The Chief Executive officer is elected by the board of directors and may be removed by the board of directors at any time. According to our *statuts*, the Chief Executive Officer (*Directeur Général*) may not be more than 65 years old.

The following table sets forth the names and birth dates of our executive officers and their current positions with us:

Name	Date of Birth	Position
Charles Edelstenne	January 9, 1938	Chairman of the Board
Bernard Charlès	March 30, 1957	President & Chief Executive Officer
Thibault de Tersant	July 22, 1957	Executive Vice President Finance and Legal and Chief Financial Officer
Etienne Droit	September 3, 1959	Executive Vice President Sales and Services
Bruno Latchague	January 28, 1957	Executive Vice President Development and Support
Dominique Florack	June 26, 1959	Executive Vice President Strategy and Research
Philippe Forestier	May 16, 1950	Executive Vice President Alliances, Marketing and Communication
John Mc Eleney	April 29, 1962	Chief Executive Officer of SolidWorks
Joel Lemke	January 12, 1956	Chief Executive Officer of Enovia and General Manager PLM Americas

Executive Officer Biographies

Etienne Droit has been our Executive Vice President Sales and Services since 2003. Mr. Droit served as our Executive Vice President Sales and Marketing for the Digital Enterprise from 2000 to 2002 and our Executive Vice President Sales and Marketing from 1995 to 1999. He also served as our Director of Applications Development Division from 1991 to 1995, as Manager of the Strategy Department from 1987 to 1991 and as a member of our CATIA Development Team from 1986 to 1987.

Bruno Latchague has been our Executive Vice President Development and Support since 2000. Mr. Latchague served as our Executive Vice President Research and Development, Architecture and Modeling Technology from 1995 to 1999. He also served as our Director of CATIA Products Infrastructure from 1990 to 1995, as our Senior Manager CATIA Software Infrastructure from 1988 to 1990 and as our Manager CATIA Software Infrastructure from 1987 to 1988. Prior to joining us, Mr. Latchague served as Manager CAD/CAM Products Support at Régie Nationale des Usines Renault.

Dominique Florack has been our Executive Vice President Strategy and Research since 2000. Mr. Florack served as our Executive Vice President Research and Development, Strategy and Mechanical Design from 1995 to 1999. He also served as our Director of Mechanical CAD from 1994 to 1995 and as Director of Strategy and Research from 1990 to 1993.

Philippe Forestier has been our Executive Vice President Alliances, Marketing and Communication from 2003. Mr. Forestier served as our Executive Vice President Sales and Marketing for the Small and Medium Enterprises (SME) from 2000 to 2002. Living in the United States from 1995 to 2001, Mr. Forestier served as Executive Vice President Americas Market Development from 1995 to 1999. He also served as General Manager of Dassault Systemes of America from 1996 to 1998, our Director of Worldwide CATIA/ CADAM Marketing and Services from 1993 to 1995 and as our Director of Industrialization and Customer Support from 1988 to 1993. From 1984 to 1988, Mr. Forestier was in charge of implementing marketing and technical support for our products and from 1981 to 1984, was responsible for development of the CATIA geometric modeler.

John McEleney has been the Chief Executive Officer of SolidWorks since 2001. Mr. McEleney has been with SolidWorks since 1996 and has served in several roles, including Chief Operating Officer and Vice President, Americas Sales. Prior to joining SolidWorks five years ago, Mr. Mc Eleney held several senior management positions at Computervision.

Joel Lemke has been the Chief Executive Officer of Enovia since its creation in 1998 and our General Manager PLM Americas since 2003. Prior to 1998, Mr. Lemke served at IBM for 19 years, notably as a General Director of the Industrial Solutions Division of IBM. During the nineteen years of his work for IBM, Mr. Lemke was responsible for strategy, product development, service, marketing and sales of materials and software.

Financial and Contractual Relations Between Our Company and its Directors and Executive Officers

The French Commercial Code (*Code de Commerce*) strictly forbids loans by a company (*société anonyme*) to its directors. No company may provide overdrafts for directors or guarantee any director s obligations. This prohibition also applies to the Chief Executive Officer (*Directeur Général*), permanent representatives of companies on the board of directors, spouses or heirs of such persons and other intermediaries.

The French Commercial Code and our *statuts* require any director, the Chief Executive Officer (*Directeur Général*) and any shareholder who holds more than 5% of the voting rights of our shares, or if a corporate shareholder, the company controlling it, that is considering entering into an agreement with the company, either directly or indirectly, personally or through an intermediary, to inform the company s board of directors as well as its auditors before the transaction is consummated. French law also requires such an agreement to be authorized by the board of directors, and the director or person concerned may not vote on the issue. French law further requires such an agreement to be submitted to an ordinary shareholders meeting for approval once entered into, upon presentation of a special report from the company s auditors. Any

agreement entered into in violation of these requirements may be declared void by the Commercial Court at the request of the company or that of any shareholder, if such agreement is contrary to the interests of the company. Moreover, French law also states that agreements entered into in the ordinary course of business and with terms and conditions that are not out of the ordinary are not subject to the prior authorization of the board of directors. Nevertheless, such agreements must be disclosed by the interested party to the Chairman of the board of directors, who has the responsibility of communicating the list and the purpose of such agreements to the board of directors and to the statutory auditors.

B. Compensation.

In consideration for their services on the board, directors are entitled to receive director s fees (*jetons de présence*). The total annual amount of director s fees is fixed by the general shareholders meeting, but the board determines their allocation among the directors. In addition, remuneration may be granted to directors on a case-by-case basis for special assignments. A director may not vote for his or her own remuneration as a director. If he or she does vote, the decision will be void. The board may also authorize the reimbursement of travel and accommodation expenses as well as other expenses incurred by directors in the corporate interest. The Chairman and/or the Chief Executive Officer are entitled to receive remuneration in addition to the *jetons de présence* for their services to our company as provided for in our *statuts*. This additional remuneration is determined by the board of directors and in this instance, the Chairman and/or Chief Executive Officer is permitted to vote on a resolution concerning his or her remuneration.

The aggregate amount of compensation paid by us and our subsidiaries to our executive officers as a group (9 persons) for services in all capacities in 2002 was 3,131,666. As of December 31, 2002, our executive officers and directors as a group owned stock options to acquire 9,082,883 shares. The options under the 2002-01, 2002-02, 2002-03 and 2002-04 Stock Option Plans are not yet exercisable. See Options to Purchase Securities from Registrant or Subsidiaries , below.

Our directors are eligible to receive attendance fees for meetings of the board of directors. We paid 80,000 in attendance fees to directors in 2002.

The table below shows the total amount of compensation (including from bonus and profit-sharing plans) and other benefits granted in euro to each director by us and our subsidiaries during the 2002 fiscal year:

Directors	Salary	Other benefits	Director s fees
Charles Edelstenne	536,325		16,000
Bernard Charlès	813,317	4,666	8,000
Thibault de Tersant	250,058	2,702	8,000
Paul Brown			8,000
Laurent Dassault			8,000
Christian Decaix			8,000
Bernard Dufau			8,000
André Kudelski			8,000
Loïk Segalen			8,000

Options to Purchase Securities from Registrant or Subsidiaries

Pursuant to four successive authorizations granted by our shareholders at shareholders meetings held on April 15, 1996, on June 6, 1997, on January 26, 1998 and on May 28, 2002, the board of directors implemented fourteen stock option plans for the benefit of certain of our executive officers and employees. The exercise price of stock options granted pursuant to the fourteen plans together, was fixed by reference to the market value of the Dassault Systèmes shares on the grant date of the stock options. The exercise price has always been equal to the highest of the following three values: (1) the average share price, without a reduction, of the 20 trading days preceding the grant date of the stock options; (2) the closing share price the trading day before the grant date of the stock options; and (3) the opening share price on the grant date of the stock options.

The following table provides certain information on our stock options plans as of March 31, 2003 (taking into account the stock split of October 14, 1997).

Stock option plan	1996	1997	1998-1	1998-2	1998-3	1998-4	1998-5
Meeting date of Board	June 28, 1996	Dec. 15, 1997	Jan. 28, 1998	Nov. 9, 1998	Nov. 9, 1998	Sept. 15, 1999	Sept. 15, 1999
Shareholders Meeting Dates	April 15, 1996	June 6, 1997	Jan. 26, 1998	Jan. 26, 1998	Jan. 26, 1998	Jan. 26, 1998	Jan. 26, 1998
Number of options granted	1,027,780(1)	1,031,840	750,000	2,468,730	354,750	3,297,000	320,000
to directors	167,000	175,400	0	1,042,850	0	1,845,750	0
to the top 10 beneficiary employees	230,000	411,600	706,000	838,000	126,000	844,000	103,500
Maximum number of shares	1,027,780	1,031,840	750,000	2,468,730	354,750	3,297,000	320,000
Number of beneficiaries	916	362	26	1,018	296	556	290
Exercise price per option in euro	9	25.92	26.37	29.58	29.58	37	37
Exercise first date	June 28, 1996	Dec. 15, 1999	Jan. 28, 1998	Nov. 9, 2000	Nov. 9, 1998	Sept. 15, 2001	Sept. 15, 1999
Exercise last date	June 27, 2006	Dec. 14, 2007	Jan. 27, 2008(a)	Nov. 8, 2008	Nov. 8, 2008(b)	Sept. 14, 2009	Sept. 14, 2009(c)
Number of options exercised 1996-2001	780,656(2)	43,622	599,700	20,184	112,457	1,600	59,075
Number of options exercised in 2002	25,410(3)	32,622	25,000	13,910	8,025	11,900	7,052
Number of options cancelled 1996-2001	29,960	17,004	0	44,552	0	33,940	0
Number of options cancelled in 2002	0	7,942	0	8,238	0	10,700	0
Number of options outstanding as of December 31, 2002	191,754	930,650	125,300	2,381,846	234,268	3,238,860	253,873
Number of options exercised during 2003 Q1	130	0	0	0	0	0	0
Number of options	0	0	0	300	0	0	0

cancelled during 2003 Q1							
Number of outstanding options as of March 31, 2003	191,624	930,650	125,300	2,381,546	234,268	3,238,860	253,873

[Additional columns below]

[Continued from above table, first column(s) repeated]

Stock option plan	1998-8	1998-9	1998-10	1998-11	1998-12	2002-01	2002-02	Total
Meeting date of Board	March 29, 2001	March 29, 2001	June 29, 2001	Oct. 5, 2001	Oct. 5, 2001	May 28, 2002	May 28, 2002	
Shareholders Meeting Dates	Jan. 26, 1998	Jan. 26, 1998	Jan. 26, 1998	Jan. 26, 1998	Jan. 26, 1998	May 28, 2002	May 28, 2002	
Number of options granted	2,909,600	553,300	138,000	1,387,400	328,650	1,363,563	355,300	16,285,913(h)
to directors	1,676,150	0	0	655,000	0	651,403	0	6,213,553
to the top 10 beneficiary employees	736,000	176,600	116,403	424,100	101,000	454,000	139,000	5,406,203
Maximum number of shares	2,909,600	553,300	138,000	1,387,400	328,650	1,363,563	355,300	2,293,913(h)
Number of beneficiaries	531	513	44	400	434	378	401	
Exercise price per option in euro	52	52	49	35	35	45.50	45.50	