

Annual Report 2002



Consolidated key figures

	2002 kEUR	2001 kEUR	2000 kEUR
Sales	30,337	26,180	18,150
Return on sales	(8,586)	(4,215)	(3,630)
Profit or (loss) from ordinary Operations	(397)	2,018	2,347
Consolidated net gain/(loss)	(185)	1,289	1,838
Non current assets ¹⁾	10,940	5,797	1,150
Current assets	11,882	15,515	17,848
Liabilities	9,159	7,386	5,936
Equity	13,663	13,926	13,062
Total assets	22,822	21,312	18,998
Sales Euro per share ²⁾	18.73	16.16	11.20
Profit Euro per share ²⁾	(0.24)	1.25	1.45
Consolidated net gain/(loss) Euro per share ²⁾	(0.11)	0.80	1.13
Equity Euro per share ²⁾	8.43	8.60	8.06
Average number of employees	152 ³⁾	98	65
<p>1) Incl. accrued and deferred taxes 2) Undiluted, i.e. not taking contingent capital and approved capital into account 3) The average number of employees 27 temporary staff</p>			

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Keynote of the Management Board



Christina Oppermann

Wolfgang Gäbler (CEO)
(Chairman)

Karl vom Bauer (COO)

Dear shareholders,

Defending champions are always in a difficult position. With their success they have laid the bar very high. As a result, even respectable results often pale in the light of top performances achieved in the past.

Such was the case with after the 2001 financial year. It was the most successful year in the history of the company. The bar was thus extremely high going into the year 2002, with the general situation of the German economy continuing to deteriorate.

Hardly any real economic growth, the highest unemployment rate for years, and a strong increase in the number of insolvencies - in this environment we increased our gross sales and again achieved a positive operating result (EBIT) in the 2002 financial year. Both developing stably and defying negative trends in the overall economy as well as declines in the PC games and software market are, in themselves, top performances. Thus, we can truly speak of a satisfactory year.

Despite this satisfaction, we are self-critical enough to say that it could have been even better. Without the release delays of promising titles such as *Breed* or *Galaxy Andromeda* (previously *Imperium Galactica III*), the positive figures would certainly have been even higher.

But successes should not be measured in terms of figures and short-term assessments alone. Computer games are not developed overnight; many months elapse between the original idea and the marketability of a game. Further, the life cycle of a computer game has medium-term dimensions, for there are many marketing opportunities for every title. Staying power and a solid structure are important in such a fast-paced market. These are two characteristics that distinguish CDV; and both were clearly evident in the 2002 financial year.

More than 80 licensing agreements worldwide were closed in 2002 alone; this underscores the growth that we have achieved as well as our long-term strategy. Not only do these licensing agreements offer global potential, but they also create independence. The fact that we now generate some 60% of our sales outside of Germany provides us with a solid basis to counterbalance economic fluctuations across all geographic markets in specific cycles.

The opportunity for long-term improvement in profitability is shown by another key figure: the secondary marketing potential. Republication under the "CDV Bestseller" label has pushed titles that had previously not been so successful. In 2002 alone, 190,000 copies in this series were sold in German-speaking countries, demonstrating the strength of CDV titles. As secondary marketing generates comparatively low costs, the margins are attractive.



In 2002 we secured our future at the developer level with some very important contracts. With the well-known Ukrainian *Cossacks* developer GSC Game World, we closed a master agreement on five further products. With the experienced Hungarian developer, Stormregion Ltd., one contract was closed on a very promising strategy game.

Such mutually beneficial partnerships are due to our ability to repeatedly position top titles on the market. *Sudden Strike II*, the second part of the PC real time title *Sudden Strike*, with global sales of over 800,000 copies, not only climbed high in the charts, but also generated excellent sales figures. Launched in May 2002, the title found more than a quarter of a million buyers in seven months.

We have supplemented such highlights with a whole range of additionally interesting titles from our extensive product pipeline. This product mix has consolidated our leading role. CDV was and remains one of the largest German game publishers in the full-price segment.

By concentrating on both our core areas and our move to vertical expansion in related business areas, we generate a good mixture by exploiting existing potential and capitalizing on new opportunities. Alongside the traditional segment of classical strategy and action-adventure PC games, we are positioning ourselves in market segments that are in the process of development, for example online gaming and console games for Microsoft's

Xbox™ video game system. With titles for children and youth, as well as user software, we have further areas for generating income.

We are developing our business in a level-headed manner. Equally so we are maintaining our declared objective - to become a global player in the international games market in the areas of development and publishing. We created the conditions for doing so and then extended them in 2002. In the current year we will work intensively to extend them even further. From our consolidated position in Germany, we should have a good chance in the international market.

Thus, in the international market it will remain just as exciting for CDV as for the players of our games. Remain with us as a shareholder and catch the spark of excitement as experienced by millions of people with our games every day.

Karlsruhe, Germany, March 2003

The Management Board



Wolfgang Gäbler
(chairman)



Christina Oppermann



Karl vom Bauer

Report of the Supervisory Board



Gerhard A. Koning
(Chairman)

Rüdiger Burkart
(Vice-Chairman)

Stefan Wiederfer

In the 2002 financial year, the Supervisory Board dealt intensively with the situation and development of the company. It was kept informed by the Management Board both orally and in writing of the overall situation of the company and the current development of business. In addition, the Management Board reported to the Supervisory Board as and when special circumstances arose.

In a total of four meetings, the Supervisory Board assured itself of the proper conduct of the management and passed the necessary resolutions. The Management and Supervisory Boards discussed business requiring approval in line with the internal regulations of the Management Board and Supervisory Board; where necessary, the appropriate consents and approvals were given. Due to the small size of the Supervisory Board, it was not necessary to form committees.

With effect from January 1, 2003, the Supervisory Board appointed a new member of the Management Board, Mr. Karl vom Bauer, with responsibility for Human Resources and Operations. Due to commitments from his many other obligations, Prof. Walter Ruda, CFO, left CDV by mutual agreement on January 31, 2003. We are indebted to Prof. Ruda for the work he has done for the company.

The annual financial statements prepared by the Management Board, the management report for the 2002 financial year, and the consolidated financial statements and group management report, including the accounts, have been audited by the appointed auditors, the auditing and tax consulting company Dr. Rödl und Partner GmbH, Nuremberg. The auditors raised no objections and

issued unqualified audit certificates for all of the above items.

The annual financial statements, management report, consolidated financial statements, group management report for the 2002 financial year, and the reports by the auditors on the audits of the annual financial statements, consolidated financial statements and the corresponding management reports were all submitted to the Supervisory Board for examination in a timely manner.

The Supervisory Board discussed the annual financial statements of CDV Software Entertainment AG with the Management Board in a meeting held on March 20, 2003, which was attended by the auditors. Following the conclusions of its examination, the Supervisory Board had no cause for objections. It approved and thus adopted the 2002 annual financial statements.

In the reporting year, the Supervisory Board comprised Gerhard A. Koning, Chairman of the Supervisory Board, Rüdiger Burkart, Deputy Chairman of the Supervisory Board, and Stephan Wiedorfer.

The Supervisory Board would like to thank the Management Board and all of the employees for their work and cooperation in the 2002 financial year.

Karlsruhe, Germany, March 2003



Gerhard A. Koning
(Chairman)

The world of PC games



```
HRESULT CFileShellExtender::DoCopy(Long lwhat)
{
    HRESULT hr;
    if (m_pDataObj)
    {
        FORMATETC f = {CF_HDROP, (DVTARGETDEVICE FAR *)NULL, DVASPECT_CONTENT, -1, TYMED_HGL(
        STGMEDIUM m;
        hr = m_pDataObj->GetData(&f, &m);
        if (SUCCEEDED(hr))
        {
            UINT cbFiles = 0;
            if (m.hGlobal)
                cbFiles = DragQueryFile((HDROP)m.hGlobal, (UINT)-1, 0, 0);

            if (cbFiles)
            {
                long len = 0;
                TCHAR buffer[EMAX_PATH];
                TCHAR *p;
                UINT i;
                //Get name of
                f
            }
        }
    }
}
```

```
{uFlags & CMF_VERBONLY} ||
{uFlags & CMF_EXPLORE})
{
    InsertMenu(hMenu, IndexMenu++, MF_SEPARATOR|MF_BYPOSITION, 0, NULL);
    InsertMenu(hMenu,
        IndexMenu,
        MF_STRING|MF_BYPOSITION,
        IdCmd++,
        szMenuText);

    SetMenuItemBitmaps(hMenu, IndexMenu++, MF_BYPOSITION, bml, bml);
    InsertMenu(hMenu,
        IndexMenu,
        MF_STRING|MF_BYPOSITION,
        IdCmd++,
        szMenuText2);
}
```

The fascination with the virtual

What kind of software takes the computing power of a standard computer straight to its limits? What software is extremely complex? What is the most time-intensive use of the computer? The answer to all three questions is the same: computer games.

This certainly astonishing answer makes one thing clear. The term "games" for products that CDV develops and markets is anything other than up-to-date. We are light years away from the early days of computer entertainment with two bars and a circle on the screen, which many still remember as digital tennis.

Modern computer games spirit players away into virtual worlds with bizarre landscapes, heroic figures, or mystical locations. Presentation in film quality, synchronized dialogue, Dolby Surround sound, and plastic visualizations of explosions, smoke, and fire show that modern PC games have almost reached the level we know only from films, which originated on the computer. It is no wonder that sales of computer and video games approached the level of movie box offices as early as 1999. In Great Britain, for example, games sales have already surged ahead of box office sales.

Computer games have long since ceased to be an activity purely for children and young adults. The fascination with virtual worlds unites millions of virtual adventurers. They play in the past, present, or future, and they create their own fantasy time as well as their own fantasy world. In North America, 150 million people already immerse themselves in these virtual worlds of computer games. The average age of the player is 28 years.

The Internet combines these worlds in an all-embracing virtual world and creates interactive gaming opportunities that connect across country borders, thus forming a large community of players. Whether strategy, adventure, or action game, the community of fans is growing swiftly. Entertainment software is the most rapidly growing segment of the entertainment market. Entertainment software manufacturers in the USA, Japan, and Great Britain are posting sales up into billions of Euro.

German publishers do not yet play in the same league as the international market leaders, even though Germany has the largest market potential in Europe. For CDV, as one of the largest and best-established German publishers, the global potential offers the tremendous opportunity of staking out a leading international position, one beyond the realms of a purely German business.

CDV - the strategy

Games are attractive fun

In the developmental phase, successful PC games consume so much capital that one could afford an impressive fleet of top sport cars instead. Over a period of one to two years, CDV invests between □500,000 and □2 million in the development of a single computer game.

A company that can provide these financial resources also has to have the equivalent earnings opportunities. CDV exemplifies this. Developing attractive games within a specific time frame and at a fixed budget is one of the most important strengths of the major German publisher.

On the one hand, the earnings opportunities with in-house productions result from the strong importance of the share of fixed costs. With corresponding unit figures, this impacts the margins positively. On the other hand, it allows multiple licensing options, while licensing contracts regulate use in a binding fashion.

Previously, CDV was predominantly geared towards pure distribution. Since its successful IPO in April 2000, the company has had the necessary financial clout to increasingly base its business success on in-house productions. Thus, a whole range of interactive products has been created and continues to be created. They can be licensed on an international basis and in many formats. In terms of content, the product range is becoming more comprehensive. In this way, potential sales fluctuations can be compensated for in an optimal fashion to achieve an appropriately positive result.

Successful games produced within the company such as *Sudden Strike* and *Cossacks* not only underpin CDV's market position and slowly close the gap to the large international players, but they also produce a positive spiral, pushing CDV upwards. As a result, top games push CDV more firmly into the sights of well-known and talented developers. These people are the best means of ensuring that further successful productions are made, which in turn improve the market position and increase awareness levels.

For CDV, the great challenge of the multimedia world is creating high-quality interactive products. The focus on attractive contents and fun across various genres and formats will be a decisive factor in international competition. This consistent orientation is one of CDV's strategic advantages in the global entertainment market.

The company has a well-filled product pipeline. It includes online and console games, the latter for Xbox™, the video game system from Microsoft. All systems are going for further global expansion coupled with a solid implementation and a promising product portfolio.

CDV - the company

Innovation and experience

New economy and tradition are two terms that, at first glance, do not seem to go together. However, they can complement each other perfectly. The best example of this is CDV.

Computer games at the quality and complexity developed and sold by CDV remained in the domain of the imagination just a few years ago. Now they are reality, having become high-tech products thanks to huge technological advancements. Often, they acquire cult status as a result of global distribution. No end to this development is in sight. One innovation is followed by another. This is what fuels the new economy.

However, the new economy cannot completely revolutionize the rules of the old economy. Hence, the dreams and visions of many young entrepreneurs have fallen through. The companies that have survived are those able to build upon tradition, experience, superior methodology, and sound

expertise. Founded in 1989 by Wolfgang Gäbler and Christina Oppermann, CDV can rely on almost 15 years of experience in the software market. As a result of its stable foundation, CDV has been able to achieve a good position in the market and has developed to become one of the leading German publishers.

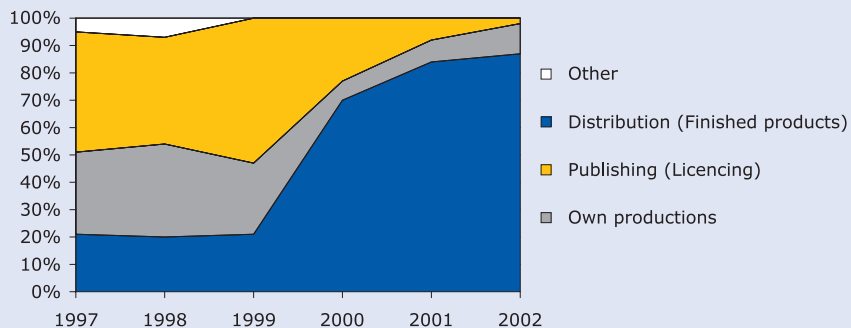
CDV also has an international presence. In addition to its head office in Karlsruhe, Germany, CDV is represented by a subsidiary in the most important computer game market worldwide, the USA. CDV also runs an office in London to ensure proximity to the British market.

CDV's product focus and range of services are clearly set out: publishing, development and sale of "eTainment" products and affordable application software. Software from the three divisions of Entertainment, Edutainment, and Infotainment fall under the term "eTainment".

The mainstay of sales at CDV is the entertainment division. In particular, this includes computer games. This, in turn, relates to CDV's three areas of activity: own production, publishing, and distribution. CDV had its beginnings in the latter, but that is now of lesser relevance to sales and business development.

In the publishing area, CDV acquires licenses directly from developers for finished games and programs and carries out the necessary duplication, marketing, and sales.

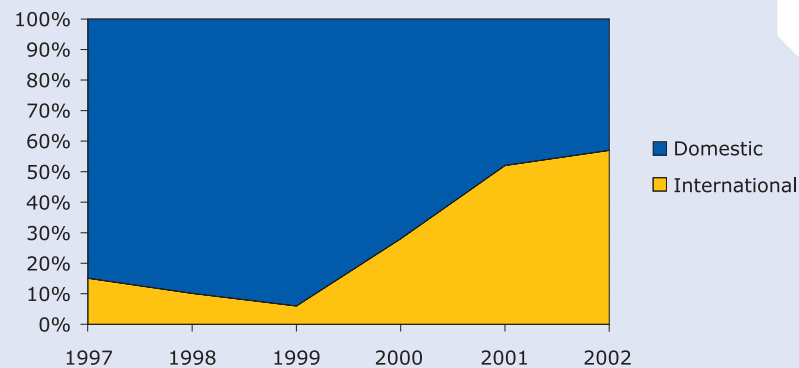
Allocation of sales to depth of value added



However, own production generates the largest growth opportunities and the most attractive margins. Managed and financed by CDV, products are created by developers, for which the company generally acquires the global licensing rights. With development, production, marketing, and sales, CDV controls the entire process chain and thus, for the most part, the success of a product.

This success depends substantially on the harmonization of innovation and experience: innovation in technology, presentation, and content; experience as regards the wants of the global fan community; and, lastly, efficient marketing.

Geographic sales allocation



CDV - the products

Play, learn, inform, organize

Life is more than entertainment and games. In an age characterized by an almost colossal flood of information, we are constantly learning to gather, process, organize, and optimize information in order to keep up. Upon closer examination, the content of the business areas covered by CDV in the software market provides a mirror image of this life, albeit with a different emphasis. The various product areas of the CDV program concern learning, informing, organizing, and of course, first and foremost, entertainment.

The entertainment division is dominated by computer games that operate on several platforms. The CDV product pipeline ranges from games for conventional PCs to console games for new technologies such as Xbox™, the video game system from Microsoft. The games, developed using complex programming, captivate both young people and adults, thus promising high sales figures. These games are categorized according to genre, i.e. strategy, action, or adventure. Properties such as multiplayer options and Internet compatibility are important in terms of attractiveness, but most important of all is gameplay, i.e. the fun factor, the dramatization or game intensity, as well as the features, which are the special functions and qualities of a game.

The most successful CDV products in the entertainment division are currently *Sudden Strike* and *Cossacks*, the two company-produced real time strategy games. They have pushed CDV to the top of the market. With global sales of *Sudden Strike* exceeding 800,000 copies and the *Cossacks* series exceeding one million copies, both games are at the top of the international charts. Both top sellers have also been awarded various

national and international honors, such as the "Golden Computer" award for *Cossacks* (2001), voted for by readers of *ComputerBild-Spiele* magazine.

The edutainment and infotainment divisions are characterized by both educational and trend products with which CDV purposefully matches the spirit of the age.

CDV is also involved in the music software field and offers music fans programs such as *n-Track Studio* and *AudioWriter* for producing their own music CDs. In the field of graphics, CDV is also building upon established design programs such as *3D Küchenwelt* and *ArCon 4.15* (CDV version), which make it easier for those planning a home to design entire rooms. Other interesting trend products include the *CDV Handyset USB* and the *MOVIEWOW!* video clip program.

The standard application software offered by CDV in the lower price segment includes tools to improve the function, organization, speed and security of computer systems. Such system analysis or improvement tools include *CDV Partition Manager*, *CDV XP-Manager*, and *Dr. Hardware*. The e-mail filter *AntiSpamWare 2.0* came out on top in a test carried out by *ComputerBild* (calendar week 25, 2002).

Boundaries between individual software divisions united in the "eTainment" category are fluid. Technological innovations and changes in user behavior also shift these boundaries and simultaneously create scope for new product ideas. An important element of CDV's strategy is the rapid implementation

of these changes and the consistent exploitation of new potential. It is evident from recent events that the leap to the much-lauded markets of the future took many companies away from their core competencies and was often something of a leap into a void. It was only in the restructuring process that companies returned to their roots.

CDV products are permanently rooted in the eTainment market segment. The company's focus on individual strengths and a clear product portfolio has always been advantageous. Above all, it has provided the necessary stability for developing new product ideas.

CDV - the employees

Growing potential

Nowadays, everything depends on computers. They must be state-of-the-art and represent the very best in terms of performance and technology. This is the only way to develop sophisticated and complex games that have what it takes to become a top-selling article.

Do these machines in and of themselves, however, provide some kind of advantage in this climate of tough competition? This is not likely. They are replaceable, commercially available, and can thus be used by anybody with an interest in this market.

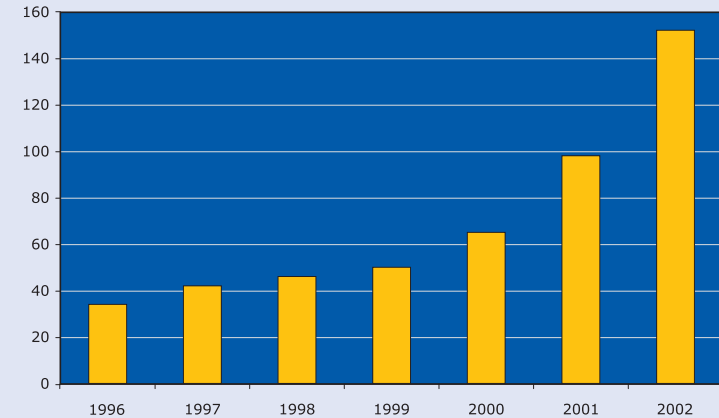
It is the people that make the difference. It is the employees at CDV who develop creative ideas and possess necessary knowledge and experience, which in turn flow into redevelopment, processes, production, marketing, and sales. The employees are thus the decisive advantage in the tough competitive environment of the computer games market.

While figures in many areas in the economy point to stagnation or even decline, CDV's strong upward trend can be shown in one number. In the 2002 financial year, CDV created 43 new jobs. In the previous year, CDV was listed in the Top 100 job creators in Germany, according to a study by the German business magazine *Wirtschaftswoche*.

Some 150 people are currently employed at CDV at the German headquarters in Karlsruhe, Germany, in the United Kingdom, and in the United States. Their work ranges from software development to international license procurement and marketing.

Change in number of people employed 1996-2002

Average number of employees throughout the year



CDV's investment in the future has been made abundantly clear in doubling the number of employees within two years. Utilizing the potential of a young, dynamic team with a high degree of commitment and motivation is the best prerequisite for gaining market share and growing internationally.

In a rather unusual initiative for a company of its size, CDV is also stressing its efforts to ensure the high qualification of its employees and to fulfill its social responsibilities. In 2002, CDV invited students at the Games Academy in Berlin to apply for sponsorship. Young people thus had the opportunity to create promising carrier prospects without having to use their own funds.

CDV marketing

Advertising is part of the game

Even a top product does not sell itself. Not infrequently, clever marketing and an extraordinary sales strategy are instrumental in taking a product to the top.

The focus on marketing and sales is one of the key tasks of CDV. The spectrum of marketing activities is wide and begins even before the first publicity campaign is underway. Product and packaging design is extremely important, as what the eye sees affects every decision on whether or not to buy.

The product is accompanied by a colorful marketing mix of advertisements in online and offline media, advertisement e-mails to end customers and editors, and a wide range of promotional campaigns. Prominent activities include events such as the exciting LAN parties, at which hundreds of players are immersed in their virtual worlds, as well as the diligent updating of Internet pages. CDV is successful not least because of the large number of separate websites for its entertainment products, which record some ten million hits each month. This trend continues to rise sharply.

Advertising activities are supported by multifaceted public relations work. In particular, relations have been built up and maintained over many years with the German and international specialist presses, which has ensured regular mention in the editorials of important publications.

Sales are managed via an in-house field service and via key account and telesales teams. In German-speaking countries, the retail market is supplied by CDV directly. A broad network of first-class distribution partners ensures a steady market presence abroad.

The key factors for successful sales are CDV's network of partners, more than 345,000 registered end customers, a large number of renowned trade listings, the regular dispatch of sales brochures and product information, and participation in international trade fairs. However, even though each individual measure contributes to this success in sales, CDV applies one of Hegel's principles to its entire marketing and sales strategy, namely, that the whole is more than the sum of its parts.





Investor Relations

With spectacular company insolvencies, the 2002 stock exchange year was one marked by a loss of investor confidence. In difficult economic conditions, CDV's intensive dialogue with private and institutional investors, as well as with financial analysts and journalists, was particularly important. In addition to the discussions of the Investor Relations department with fund managers, journalists, private investors, and capital market information providers, the chief financial officer also personally held a series of meetings with analysts and potential investors.

At the Balance Sheet Press Conference, at an analyst conference, in numerous ad hoc disclosures, and at the Annual Meeting of Shareholders in

Karlsruhe, Germany, on June 13, 2002, the Management Board provided detailed information about the development of business and company strategy.

In addition, Chief Financial Officer Prof. Dr. Walter Ruda presented CDV Software Entertainment AG at events such as the Stock Day in Frankfurt/Main. In talks, interviews, and reports, CDV focused on presenting the sound financial situation of the company. Although business cycles in the software entertainment industry are very difficult to align with the quarterly thinking prevalent on the stock exchange, there were a large number of buy recommendations for the CDV share, examples of which are shown below:

Recommendation (selection)	Source	Date/Issue
Neutral	DW Bank	November 2002
CDV Software convincing	<i>Der Aktionär</i>	December 11, 2002
Accumulate	Neuer Markt Trader	December 2, 2002
CDV Software Buy	AC Research	November 27, 2002
Strong buy	Aktienservice Research	August 22, 2002
Balance sheet is very sound	www.Tradecentre.de	July 22, 2002
Buy	www.neue-maerkte.ch	July 14, 2002
Buy	Gatrixx NetSolutions GmbH on behalf of the Sparkasse Aurich-Norden	March 19, 2002

Despite these recommendations, CDV was not able to escape the volatility of the valuations on the Neuer Markt. The downward trend of the stock exchanges in general and the Neuer Markt in particular impacted the CDV share. The year high on January 9, 2002, was □25.54 (Xetra, closing price); the year low on October 23, 2002, was □4.50.

For the first time since the IPO in April 2000, the company revised its ambitious earnings and sales forecasts downwards; this took place in October 2002. Reasons for this included a delay in the release of the PC games *Breed* and *Galaxy Andromeda* (previously *Imperium Galactica III*).

In the previous financial year, online information provided to the financial community was expanded and structured in a clearer way. Now, even more up-to-date reports, interesting press releases, and all of CDV's ad hoc disclosures can be found on the company website. In addition, the presentations, interviews, and reports on the Annual Meeting of Shareholders and the Balance Sheet Press Conference/Analysts Conference can be accessed via the website. Furthermore, the company also reports director dealings there. These include stock exchange transactions of members of the Supervisory and Management Boards and their family members, all of which must be reported. The declaration of conformity to the German Corporate Governance Code can also be found on this page.

Declaration of compliance with § 161 of the German Stock Corporation Act in observance with the German Code of Corporate Governance at CDV Software Entertainment AG

In June 2000, the Government Commission on "Corporate Governance, Corporate Management, Company Supervision, and the Modernization of the German Stock Corporation Act" was set up to investigate possible shortcomings in the German system of company management and supervision and to prepare recommendations for modernizing the statutory framework. In July 2001, the Government Commission instigated the development of the Code of Corporate Governance.

The Government Commission on the Code of Corporate Governance, under Dr. Gerhard Cromme, was then set up in September 2001. The text of the Code was submitted in early 2002. It defines three levels of document: regulations, recommendations, and guidelines.

Only the regulations have to be applied mandatorily, because they describe currently valid statutory norms. Article 161 of the German Stock Corporation Act requires listed companies to make annual declarations concerning any deviations from the recommendations. Companies are allowed to deviate from the guidelines without having to declare a reason.

The Supervisory and Management Boards of CDV Software Entertainment AG of Karlsruhe welcome the appearance of the German Code of Corporate Governance and will implement and adhere to it to the greatest extent possible. The few points at which the attitude of CDV Software Entertainment AG deviates for the time being, and probably also in the future, from the tenets of the Code are explained below.

Interaction of Supervisory and Management Boards

Article 3.8 sentence 3: D&O insurance

According to the recommendations of the German Code of Corporate Governance, an appropriate reserve should be agreed under the legal liability insurance policies taken out for the members of the supervisory and management boards, known as Directors' and Officers' Liability Insurance. The members of the Supervisory and Management Boards of CDV Software Entertainment AG always carry out their duties conscientiously, and the Company therefore doubts whether any such reserve can increase their motivation.

None of the existing D&O policies contain any such reserve, and the Company does not intend to introduce any.

Management Board / composition and remuneration

Article 4.2.4 sentence 2: individualized list of directors' emoluments

The Code recommends a detailed and individualized list of directors' emoluments in the Notes to the Accounts. CDV does not regard such a list as being likely to provide shareholders with any great benefit and will therefore only show the directors' emoluments as a total figure.

Supervisory Board / tasks and responsibilities

Article 5.1.2 sentence 6: age limit for members of the Management Board

The Code recommends that an age limit should be set for the members of

the Management Board. The Supervisory and Management Boards of CDV Software Entertainment AG, however, regard this as a pointless limitation of the shareholders' right to experienced and competent managers, and therefore reject the idea of setting an age limit for the members of the Management Board.

In addition to this, an age limit might limit the Supervisory Board in its choice of members of the Management Board.

Supervisory Board / composition and remuneration

Article 5.4.5 sentences 4 and 5: profit-orientated remuneration for members of the Supervisory Board

The Code recommends partly fixed and partly variable remuneration for members of the Supervisory Board. CDV is currently examining the potential benefit of such arrangements to shareholders and to the Company as such. Members of the Supervisory Board currently receive fixed emoluments.

Transparency

Article 6.6 sentence 1: reporting of purchase / sale of own shares

The Code recommends that the purchase and sale by members of the supervisory or management board of a company's shares and those of its affiliated companies, as well as options and other derivatives, should be reported to the company without delay as soon as the transaction has been completed.

The members of the executive bodies of CDV already report their securities

transactions in compliance with Article 15a of the Securities Trading Act, under which transactions are reported that are made by those persons who are required to report them and exceed €25,000 within 30 days. Purchases and sales below this level do not have to be reported, as this would flood the public with information about insignificant transactions.

Accounting and auditing

Article 7.1.2 sentence 2: deadlines for submitting consolidated accounts (90 days) and interim results (45 days)

The Code recommends that consolidated accounts be published within 90 days and interim results within 45 days of the end of the period under review in each case. Statutory and stock exchange regulations provide for the publication of interim results within 60 days of the end of the period under review. CDV adheres to this deadline and also considers it to be appropriate in light of the size of the Company.

Karlsruhe/Germany, December 2002

For the Management Board



Wolfgang Gäbler

For the Supervisory Board



Gerhard A. Koning

Product pipeline





Rosso Rabbit

in Trouble



Boredom is a thing of the past!

Our free Christmas jump 'n' run, Santa Claus in Trouble, was a real mover last Advent: 3,000,000 downloads cried out for a repeat performance - Santa Claus needed a successor!

Voilà! And there he came a-hopping for Easter: Rosso Rabbit! And Rosso definitely has got the jump over jolly old Santa as far as trouble goes! Gaining extra lives is no picnic in this game: our bouncing bunny will have to hop around the clock to gather carrots, red beets, and exasperatingly well-hidden lettuces. Forests, meadows, mountains, and ice will test your dodging skills to the max. Eighteen richly populated levels full of fiendish traps, dangerous enemies, wondrous surprises, and loads of hidden bonus miles don't just sweeten up Easter, but they banish boredom, too - especially when you discover the eggciting, colorful Easter surprise levels. Get the free download or the premium version of Rosso Rabbit in Trouble, which is available for download or on CD-ROM.



CDV in hot pursuit of the turnover high score:

Enthusiasm for a product transforms it from first-class to real top of the range - making sales fly. This means that everyone involved has to pull together. This is only possible when everyone believes in the upcoming games - the true basis for success! Let the following pages convince you. Get to know the world of CDV games - and let it inspire you!



Blitzkrieg



Attack is the only Defense

**German Release:
Out now!**

**GENRE:
Real Time Strategy**

**WEB:
www.blitzkrieg.com**

Format: PC CD-ROM

Features

- Thrilling real time strategy game set during World War II
- Soviet, German, and western Allied campaigns with more than 80 missions
- More than 200 3D vehicles with realistic weapon and armor data
- Large units, trains, and coastal artillery
- 3D landscapes extend tactical possibilities
- Armies can be extended and improved through promotions and special missions
- Multiplayer game via LAN or the Internet
- Vehicle database
- Historically accurate battles in Africa, Russia, and Europe
- Large operations involving hundreds of Soviet, German, and western Allied units
- More than 40 kinds of infantry with specialized weapons
- More than 250 types of buildings and objects
- Units move realistically
- All landscape objects are destructible
- Numerous videos from World War II provide for a thoroughly absorbing atmosphere
- Enemy equipment can be stolen and used
- Ability to build bridges, dig trenches, lay mines, and call for air support (fighters, bombers, low level fighters, reconnaissance, paratroopers)
- Generate missions, maps, textures, and models, as well as add sounds

Blitzkrieg is the fine art of strategy, but with much more finesse!

Dissect your enemy with surgical precision, halt the enemy's advance with strategic tank and air assaults, and maintain your offensive momentum. You can prove your tactical skills by triumphing in various historical campaigns during World War II. Command more effectively over the course of the war. Progress through the game is rewarded through access to the latest warfare technology, so strategic guile is recommended. Accept the challenge and launch your assault, remembering that ...

Attack is the best form of defense!



American Conquest *Fight Back*



Fight Back

German Release:
1st half 2003

GENRE:
Real Time Strategy

WEB:
www.americanconquest.com

Format: PC CD-ROM

An absolute must for every *Cossacks* and *American Conquest* fan!

Three centuries of war continue - making for even more fervent combat and more desperate power struggles across the American continent. The Spanish sound the attack on Yucatan amidst fierce Maya and Aztec resistance. The Germans put all their efforts into finding the legendary Eldorado. The Pontiac Uprising ends in a terrifying bloodbath between the Indians and the British. And the Russians will do anything to conquer Alaska at the cost of the Haida. There is a fantastic bonus for shrewd strategists: the great new "battlefield" mode! Tactical skill alone will determine victory or defeat in single-player and multiplayer modes.

So, plunge into battle!

Features

- Epic real time strategy covering the era between 1517 and 1804
- Stand-alone version of American Conquest - Three Centuries of War
- 25 new missions in 8 thrilling campaigns
- New mode of game play: 10 battlefield missions in single-player and multiplayer modes for hard-core strategists
- 5 new nations: Germany, Russia, Haida, Portugal, and the Netherlands - play a total of 17 nations!
- More than 50 new units
- Captivating real-time battles with up to 16,000 units
- Fighting morale is influenced by victories, defeats, food supplies, equipment, and mercenary pay
- Huge maps (30x20 screens, 1024x768 pixels)
- Several multiplayer modes for up to 7 players via LAN or the Internet



Heaven & Hell



Live and let die!

German Release:
2nd half 2003

GENRE:
God Simulation/RTS

WEB:
www.heavengame.com

Format: PC CD-ROM

... And lead us not into temptation.

But that's the whole point! Indulge yourself. Take on the amusing role of a soul snatcher who wields omniscient power. Play *Heaven & Hell*: convince the cute and cuddly Earth dwellers that you're the long-awaited Redeemer who'll bring salvation to their chaotic world. Let no one doubt the truthfulness of your message. Your faithful fanatics launch rotten fruits and vegetables at opposing prophets, while your prophets pummel doubters into holy submission. Alternatively, use miracles and plagues to lead the disbelieving unto the path of the righteous.

In this way, your flock shall grow and grow and grow ...

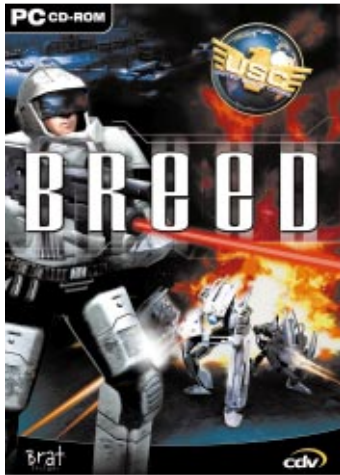


Features

- Gripping real time build-and-destroy strategy game in which you choose to play a good or evil god
- Amusing battle of good vs. evil features two colorful campaigns
- Each side has miracles and catastrophes at its disposal: rainbows, angels, demons, lightning, earthquakes, floods, and plagues of locusts and frogs
- 7 prophets with individual abilities, serving in capacities such as brute and secret agent
- 4 endearing nations that react differently towards good and evil
- Your decisions visibly alter the landscape
- Multiplayer for up to 8 players
- Comical cartoon-like world, where every action has a logical consequence
- Day and night cycles
- Random mission generator for endless gaming excitement



Breed



German Release:
1st half 2003

GENRE:
3D Action Shooter

WEB:
www.breedgame.com

Format: PC CD-ROM

"Aliens - get lost!"

As the commander of humankind's lone surviving battleship, this is your one and only thought upon your return to Earth in the year 2610. The devastating war the Breed waged in the far reaches of the universe was nothing but a diversion! While the battle was raging far away, the aggressive aliens took over Earth. Find allies, discover your oppressors' weaknesses and strike at them without mercy.

**Your suicide squad has only one goal:
to annihilate the Breed!**



Features

- Put your huge arsenal to use: MPs, MGs, assault and sniper rifles, shot-guns, grenade and rocket launchers, and plasma slingers
- Whether on land, at sea, in the air, or in space, you'll always have the right gear at your fingertips: fighter jets, landing crafts, tanks, jeeps, buggies. ... Buckle up and rock!
- 18 nerve-wracking missions that will make your blood boil
- Gigantic interior and exterior locations are all realistically destructible. Brave the jungle of house-to-house warfare
- Totally nerve-shattering multiplayer battles as a Breed or USC combatant: Deathmatch, Team Deathmatch, Capture the Flag, and other scenarios with enormous spaceships
- Cool story, tough scenario: humankind is on the brink of destruction-and it's all up to you to save the day
- Sudden attacks or meticulously planned missions-there are many ways to win, and you determine the course of action
- Across space, through the atmosphere, and directly to Earth-the powerful Mercury game engine makes it possible



No Man's Land



Fight for Your Rights!

German Release:
1st half 2003

GENRE:
3D Real Time Strategy

WEB:
www.nomans-land.com

Format: PC CD-ROM

Forget the Old World, for you're now in the land of boundless opportunity.

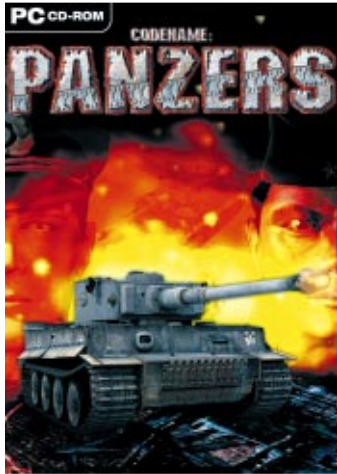
America is yours for the taking - so give it your best shot! Step into the role of a Spanish conqueror, Native American, patriot, or settler and experience six thrilling adventures where you'll encounter countless eccentric personalities. Show them who's boss: deploy special forces or bounty hunters, or rely on your wits alone to get your enemies before they get you. In *No Man's Land* you need the true spirit of America to brave the dangers of the New World, whether fighting the War of Independence or building a transcontinental railroad.

Become a pioneer and live your very own American Dream!

Features

- Discover the New World, from establishing the first Colonies to settling the Wild West
- 6 exciting stories in 3 campaigns
- 6 cultures with individual strengths and weaknesses: Spaniards, British, forest and prairie Native Americans, patriots and settlers
- Heroes and elite units: snipers, conjurers, assassins and more
- Hire bounty hunters to bring down your opponents
- Detailed and colorful settings across the American continent
- Enthralling naval and land battles
- Technological progress from canoes to frigates and from stage coaches to steam trains
- Action-packed missions with surprising story twists
- Good tactics improve units' statistics
- Use unconventional 'weapons' such as plagues and bark beetles to eliminate foes
- A brand-new multiplayer game: the railway construction challenge



Codename: **Panzers**

German Release:
2nd half 2004

GENRE:
Tactical Combat

WEB:
www.panzers.com

Format: PC CD-ROM

No, this can't be! Initial outpost reports showed only armored infantry, but some serious hardware is headed this way! How could two 70-ton German Königstiger battle tanks simply be overlooked?! Well, no time to lay blame, just aim the bazooka and bring up the tanks from the rear. Only a direct hit can destroy them. ...

Codename: Panzers thrusts you into the high-powered battles of World War II. Whether played in towns with bullet-riddled buildings, bleak mountain landscapes, or treacherous swamps, *Codename: Panzers* offers real-time combat rampages with awesome 3D graphics. Create your combat force from over 100 finely detailed units, from a flame-throwing squad to a Soviet Stalin organ rocket launcher to a German Königstiger battle tank.

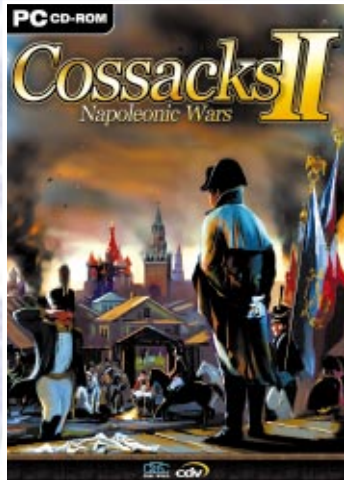
Be the commander - demolish the enemy with clever tactical maneuvers.

Features

- World War II sets the scene for thrilling strategic combat
- Totally 3D: terrain, units, buildings, weather, sound, movement, special effects - all portrayed in the minutest detail
- 30 versatile missions in 3 thrilling campaigns
- Every unit comes with a realistic field of vision and sound
- Historically accurate tanks, trucks, jeeps and motorcycles - all individually controlled
- A huge arsenal for the infantry, including flame throwers, bazookas, shells and mines
- With an ingenious bonus system units can be bought or upgrades and repairs made
- Finely detailed war damage from realistic function failure to total annihilation
- 10 multiplayer maps
- Soldiers creep, crawl, run, and dive for cover
- Dramatic campaigns with German, Russian and western Allied troops
- 4 engaging multiplayer functions with numerous specially developed battlefields



Cossacks II - Napoleonic Wars



Napoleonic Wars

German Release:
2nd half 2004

GENRE:
3D Real Time Strategy

WEB:
www.cossacks2.com

Format: PC CD-ROM

How do you satisfy the hunger of inveterate real-time strategists who can think of nothing better than to wallow in Cossacks conflicts? With a delicious dish whose name alone promises a grandiose buffet of battles: *Cossacks II: Napoleonic Wars*. Finally, you can strike without compromise in spectacular battles with an incredible number of troops. Napoleon Bonaparte serves up a glut of tactical treats for all tastes.

Experience your very own Waterloo or leave the battlefield in a procession of triumph.



Features

- Era between the 16th and 19th centuries with emphasis on the Napoleonic Wars
- Novel economy and government system
- Spectacular battles with up to 32,000 units
- 6 exciting campaigns with a total of 60 captivating missions
- 100 different units and 160 different buildings
- 10 European nations with altogether 80 upgrades
- 12 thrilling single-player missions
- 10 spectacular simulations of historical battles
- Wide scope of strategic action resulting from numerous formations and command options
- 3D physics engine provides realistic flight paths for all missile and bullet types
- Extended diplomacy system
- Multiplayer mode via LAN and the Internet: Deathmatch, Historical Battle and Conquest of Europe
- Historical battles also in single-player mode



Galaxy Andromeda



German Release:
2nd half 2003

GENRE:
Sci-Fi RTS/Tactical Space Sim

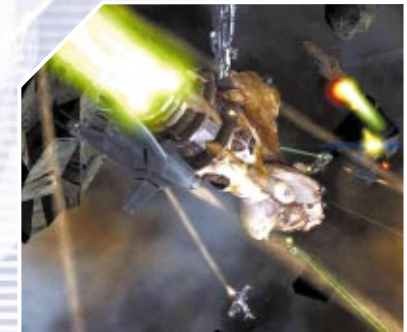
WEB:
www.galaxyandromeda.com

Format: PC CD-ROM

For 70 years you drifted in a freeze-dried state in a damaged spaceship through the endless expanse of the universe. In the year 2112 a patrol picked you up by chance, and then you were thawed out, trained and promoted to frigate officer of the ISA.

Your first assignment is the beginning of a bizarre space odyssey: a spy mission in the orbit of Jupiter. Unknown technologies, wormholes, space-time jumps, alien intelligence, a troubling past and collapsed empire are reason enough to buckle up tight and turn the retro rocket engines to full throttle.

Galaxy Andromeda, get ahead of the future!

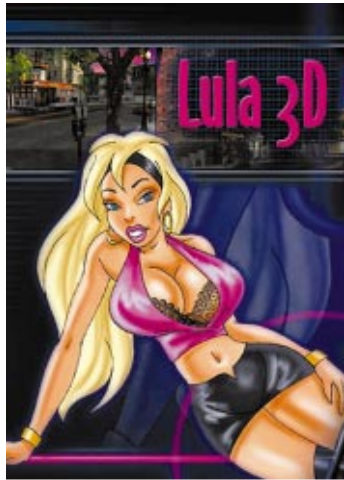


Features

- A mega-campaign with 10 episodes
- More than 30 exciting missions
- Spectacular real-time space battles with breathtaking motion picture quality
- Newly developed 3D engine with fantastic special effects
- Physically accurate flight models and flight patterns
- More than 100 planets in 20 solar systems
- 6 different alien species
- Individually configurable and controllable spacecrafts: weapons, energy sources, propulsion systems, shields, formation and battle behavior as well as target adjustment for each weapon
- More than 50 alien and human characters
- Different colonies for management, research, development, industry and shipbuilding
- More than 200 different weapons, developments and theories
- 30 alien spaceships
- Several multiplayer modes with thrilling scenarios



Lula 3D



Total Body Action

German Release:
2nd half 2003

GENRE:
Action-Adventure

WEB:
www.lula3D.com

Format: PC CD-ROM

Lula, the curvaceous producer of erotic movies, is in a serious fix.

Just before shooting begins on her new film, three of her best bosom stars are kidnapped. The only clue to the culprits are the tapes recorded by security cameras on her luxurious estate in Beverly Hills which show masked characters sneaking through the park. A black delivery van had been parked close to the wall. By chance, she comes across a book of matches from an ominous San Francisco club in her villa - it must have been dropped by one of the kidnappers. There's no time to lose! Slip into Lula's role and race off to Frisco in her sparkling Corvette.

Experience a wild chase across America with break-neck twists and a volley of erotic action.

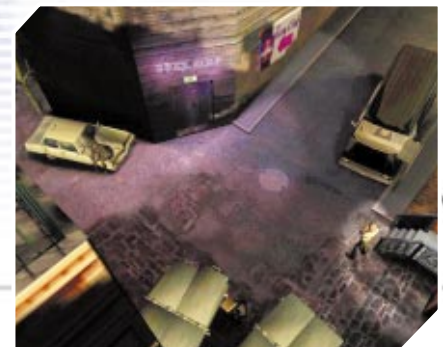
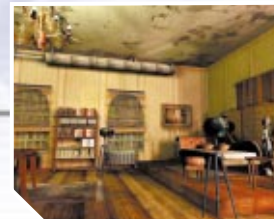


Features

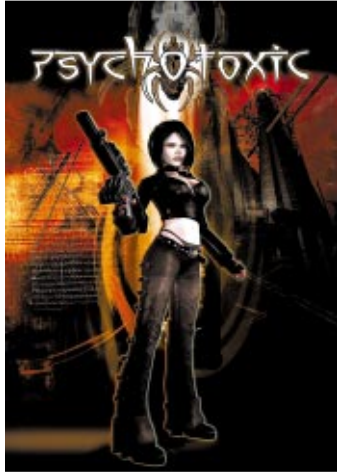
- 3D action-erotic-adventure with a tantalizing story
- Vulpine Vision Engine guarantees sensational 3D graphics in motion picture quality
- Realistic character appearance and animation
- Terrifically designed levels
- Simple mouse controls



*Lula is
BACK!*



Psychotoxic



German Release:
2nd half 2003

GENRE:
First Person Shooter

WEB:
www.psychotoxic.com

Format: PC CD-ROM

Armageddon, Apocalypse, Judgment Day - call it whatever you like.

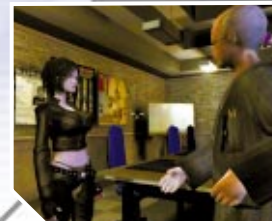
The fact is that the world faces utter disaster in the year 2020. Three of the four horsemen of the apocalypse are wreaking havoc on Earth. The fourth horseman intends to deliver the deathblow to humankind in New York. The only one who can prevent this is the lethally attractive Angie Prophet. Half human, half angel, she has the unique gift of entering other people's minds and reading their thoughts. Grow obsessed by this action-packed story as you step into the role of Angie Prophet and experience psychedelic dream worlds.

But beware that you could get lost forever, and it is your destiny to save the world ...



Features

- The deadliest weapon ever seen in a game: Angie Prophet - beautiful and tough at once
- 21 realistic and psychedelic levels with stunning surprises, a crazy mix of well-known New York locales and weird mind levels such as the "House of Horror"
- Cutting-edge high-end 3D technology powered by Vulpine
- 6 extrasensory perceptions aid in the defeat of evil forces, including invisibility and slow motion
- 23 lethal weapons such as shotguns and chainsaws
- 22 brain-sucking enemies, including stone-cold cops and dreadful zombies
- Thrillingly imaginative storyline and Hollywood-like in-game cut scenes
- Bombastic sound: 12 hits further increase the apocalyptic atmosphere
- User friendly interface for easy access and complete control



The Kore Gang

ONLY ON
XBOX



German Release:
2nd half 2003

GENRE:
Action-Adventure

WEB:
www.koregang.com

Format: Xbox™

With three zany, kooky crackpots sharing a Kore Suit, insane action is guaranteed.

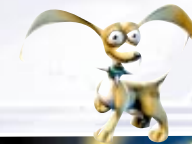
After all, you control the metallic suit that multiplies the wearer's abilities beyond imagination. Pixie becomes a pro at climbing, Madboy gains an iron fist, and the dog Rex develops astonishing senses of hearing and smell. Your job is to cleverly utilize these characters to free the mad inventor Dr. Samuelsen from the crazy Kranks.

**Become the leader of a
wonderfully wacked-out team
three times more demented,
three times weirder,
and three times stronger
than one hero alone!**



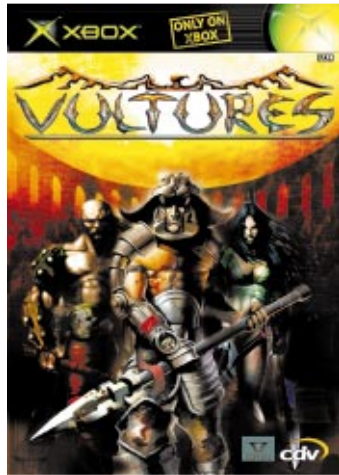
Features

- Incredible action adventure
- Weird scenarios and bizarre opponents featured in an amazing graphic style
- 3 freakish characters: a cheeky girl, a cool boy and a clever dog
- 24 tricky levels in 6 game environments
- First game ever with special character-related perspectives such as the "smell view" of the dog Rex
- Features special characters such as Eagle and Mermaid
- Change of character is possible - even necessary - at any time while playing
- Opponents react differently to each character
- Tricky riddles require the right choice of character
- Interactive sound environment: opponents have their own songs as well as catchy attack tunes - first game ever with songs integrated into the action
- Several mini-games for even more variety
- Makes full use of the features of the Xbox™ video game system, providing outstanding graphics and sounds



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Vultures



Mortal Arena

German Release:
2nd half 2003

GENRE:
Beat 'em up

WEB:
www.vulturesgame.com

Format: Xbox™

Forget about Columbus! Each attempt by the Europeans to conquer the New World failed.

Then a plague wiped out the European population. Those who were able to flee to America were free of the plague, but then were enslaved by Native Americans. Now, centuries later, there is no trace of technological progress. For the entertainment of the masses, the oppressed "Vultures" fight against each other in huge arenas - and you are one of them. You can think of nothing else other than to become the very best gladiator and thus win your freedom.

However, this can only be achieved through skill, dexterity and cold-bloodedness, as the single valid rule among Vultures remains victory or death!



Features

- Eventful beat 'em up!
- Action-packed gladiator fights with an exciting end-of-the-world scenario
- Cinematic 3D graphics make full use of the advanced features of the Xbox video game system
- Realistic character animation
- More than 16 different gladiators with individual fighting styles
- Dozens of weapons, from simple daggers to huge swords to mighty battle axes
- Bodies are divided into hit zones that allow for targeted attacks
- 25 distinct 3D arenas replete with deadly traps
- Electrifying atmosphere in the arenas, where the audience vehemently roots for or against the contestants
- Captivating multiplayer mode for up to 2 players who play with or against each other



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Group management report for the financial year 2002 CDV Software Entertainment AG

A. Business development 2002

1. Market and sectors

Overall, 2002 saw CDV make satisfactory progress. As a result of the necessary postponements in the release of highly promising titles such as *Breed* and *Galaxy Andromeda* (previously *Imperium Galactica III*), of a difficult German market, as well as of the sluggishness in the world economy, it was not possible to achieve sales originally planned for 2002.

CDV viewed the above-mentioned factors as a challenge. In a market comparison, the company met this challenge quite successfully, thanks to a balanced product strategy and a solid cost structure.

2. Product portfolio 2002

Following 2001, the most successful year in the company's history in terms of sales and results, we entered a phase of consolidation in 2002.

The gross sales of the group increased by around 16% to \square 30.3 million, while net sales (after returns) experienced an insignificant decline (of -1%), as a result of returns and higher provisions for returns. At \square 21.8 million, net sales remained roughly at the previous year's level. At \square 624,000, a positive operating result (EBIT) was again achieved.

What is pleasing was the increase in the share of foreign sales in the group sales before returns - from around 52% in 2001 to over 57% in 2002. This strengthening of international sales allows the company to more easily balance out fluctuations in individual markets in the future.

Here it must be said that the sales in this reporting period did not rise on the basis of acquisitions, but was achieved through of the company's own efforts.

The development of sales within the year reflected the typical situation of a PC games producer. In general, annual sales cannot be extrapolated from sales made in individual quarters through simple multiplication. Thus, as expected, around 70% of the sales before returns in the reporting period were generated in the second half of the year.

May 2002 saw the publication of *Sudden Strike II* in Germany. This game is the second part to the PC real time strategy title *Sudden Strike*, which has recorded worldwide sales of around 800,000 copies. *Sudden Strike II* rose to 2nd place in the charts - both in the GfK charts (Germany's Top 20, Games) as well as in the Media Control Charts (PC games costing over \square 28.00). With this title, CDV was able to hold on to second place in the Media Control Charts for two weeks and in the GfK charts for as long as four weeks. In Germany alone, over 70,000 copies were sold. In the course of the year, around 250,000 units were sold worldwide, including England, France, the USA, and the Benelux countries.

Marketed for a second time, the successful titles *Sudden Strike*, *Sudden Strike Forever* and *Cossacks: European Wars* were reissued under the label "CDV Bestseller". All three titles went straight into the top 10 of the Media Control Budget Charts. Even the title *WarCommander*, which was less successful on its first release, spent several weeks in the top 10 of this chart as a "CDV Bestseller". Looking at the sales figures of this title - around

190,000 units in the reporting year in the German-speaking market alone - it is easy to see the secondary marketing potential that CDV's titles offer.

As it had announced, the company started an "autumn product campaign" in the third quarter. In all, six PC game titles were launched on the German market in the penultimate quarter of the financial year 2002. The role-playing game *Divine Divinity* set the tone here as a new entry in the top 10 of the Media Control and GfK Charts (number 6, Media Control Charts, games over □28.00, calendar week 32).

At the beginning of September, CDV published a highly regarded Massive Multiplayer Online Role Playing Game (MMORPG) in the still-emerging online gaming market segment; *Neocron* has already sold around 40,000 copies (reaching a high of 15th place in the Media Control Charts, games over □28.00; calendar week 37). Even if the sales do not suggest it at the moment, CDV considers this segment of the entertainment market to be one of the most interesting markets of the future, thanks to the rapid developments of worldwide online networking.

Parts one and two to the children's and youths' series *Burg Schreckenstein* were launched at the same time as *Neocron*. The series is based on the successful children's books by Oliver Hassenkamp. The sales figures for these kinds of high-quality and well-known products in this genre often fluctuate, however. Less than 10,000 copies of the games were sold throughout the total German market.

Following these two titles, *Cossacks: Back to War* was published, the stand-alone add-on to the hit strategy game *Cossacks*. *Back to War* also went straight into the top 10 (at number 6 in the Media Control Charts, games over □28.00, calendar week 39) and thus continued the success of the *Cossacks* series.

The niche product *Combat Mission 2: Barbarossa to Berlin*, the follow-up to *Combat Mission* that was also marketed by CDV, still managed to reach number 23 in the Media Control Charts (games over □28.00, calendar week 39).

Also appearing in September was the action-adventure *Project Nomads*, which had already been awarded the title of "Best PC Game of the Year" at ECTS 2001; however, in reaching number 41 (Media Control Charts, games over □28.00, calendar week 40) and selling around 65,000 copies worldwide, it did not live up to expectations.

In the middle of November, the next big release was waiting in the wings: the historic PC strategy game *American Conquest*. But even though the title managed to climb to number 12 in the Media Control Charts (games over □28.00, calendar week 47), the sales figures for Germany - at around 60,000 copies sold to the trade - remained at the lower end of expectations. In France, on the other hand, sales expectations of 30,000 copies in 2002 were exceeded. In the French charts, *American Conquest* climbed to number 6 (GfK France, calendar week 47/02) and was a fixture in the French top 10 for six weeks (GfK France, calendar weeks 47-52/02).

Following this GSC product, the action-adventure *Grom* and the strategy game *Airborne Assault* were published at the end of the year. These two smaller PC titles did not play a significant role in the overall portfolio.

While the overall entertainment market continues to grow, the German market for PC games, infotainment, and edutainment, as well as video games, fell around 12% in the first six months of 2002 when compared to the previous year's period. The total PC software market had to come to terms with a decline of around 17%. This was one of the reasons why CDV recorded a significantly higher returns quota in 2002. This was, however, also related to a sometimes less than optimal product quality and the necessary, but not always sufficient, lead time for PR and marketing measures.

Extensive countermeasures (PR activities and quality assurance) for 2003 were initiated immediately, and clear improvements have already been perceived.

Cumulatively, CDV thus continues to be one of the largest German game publishers in the full price segment (Media Control Charts, PC games over $\square 28.00$, cumulative, from calendar week 1/2002 to 52/2002), and in many European countries it has got a line on the top 20 of the competition.

An impressive figure of around 80 licensing contracts were concluded with international distribution and publishing partners in Europe, Asia, and Australia in 2002. With these, CDV products will be supplied to all of the important PC game markets worldwide.

Besides the areas that are serviced by CDV directly (including Germany, Austria, Switzerland, Great Britain, and the USA), the marketing of the products in 2002 was secured through contract partners in France, the Benelux countries, Italy, Spain, Greece, Portugal, Russia, Poland, Scandinavia, India, Iceland, Korea, Japan, China, and Australia.

The year 2002 saw another important milestone in the conclusion of a new framework agreement with the renowned Ukrainian *Cossacks* developer,

GSC Game World. The developers have guaranteed CDV a total of five products - the two main products *American Conquest* (publication 2002/2003) and *Cossacks II* (publication 2003/2004), as well as three additional add-ons for these two strategy titles.

Shortly before the end of the year, it proved possible to conclude a contract with experienced Hungarian developer Stormregion Ltd. for the development of a highly promising strategy game with the working title *Codename: Panzers*. Completion date is planned for the fourth quarter of 2003.

During the reporting period, several console games that CDV has in development for the Xbox™ video game system received official approval from Microsoft, among them the gladiator game *Vultures* and the action-adventure *The Kore Gang* (previously called *CORE*).

The international sales of this large number of high-quality products will give CDV additional resilience to withstand crises in future periods of economic and sales fluctuations in individual markets.

3. Personnel developments

CDV's ambitious growth targets can only be achieved through qualified employees. The workforce further increased in 2002, and as of the cut-off date December 31, 2002, the company had 159 employees. In comparison to the previous year (2001: 116 employees), this represents an increase of around 37% (2001: approx. 53%) in relation to the cut-off date and seen in absolute terms. Personnel expenditure rose by approx. $\square 2.43$ million over the previous year to approx. $\square 6.44$ million (2001: approx. $\square 4$ million), which corresponds roughly to the increase in the average number of staff employed from 98 (2001) to 152 (2002).

In the light of the large number of PC game titles published in 2002, additional employees were recruited, especially for the Development and Quality Assurance departments. In order to organize CDV's market presence in a more uniform manner and to make better use of internal synergies, the Marketing, Event and PR departments were integrated into one department.

4. Development of the CDV share and corporate governance

Debatable accounting practices and the falsification of accounts at both large corporations, and medium-sized companies have seriously shaken the confidence of private and institutional investors.

Even shares of companies such as CDV, which apply a successful business model and have presented convincing business figures over the past few years, have been affected.

It is precisely in times such as these that it becomes important to grant private and institutional investors, financial analysts, and journalists insight into the development of a company that is as comprehensive as it is realistic.

Therefore in April and August 2002, CDV participated in "Stock Day" in Frankfurt/Main and faced the questions of the financial community. In addition to a series of interviews with the business and financial press, several TV and radio interviews were also given, for example with BloombergTV.

CDV goals are to provide ongoing information about the management's strategies and to create long-term confidence in the fundamental and sustained value of CDV's stock.

Despite a large number of buy recommendations, shares in CDV were unable to escape the continuing negative trends on both the national and international stock markets, in particular on Germany's Neuer Markt, and was pushed down to a closing price of □5.77 (December 30, 2002, Xetra closing price; source: Deutsche Börse).

In the middle of February 2003, shares in CDV were quoted at □5.00 (February 13, 2003, Xetra; source: Deutsche Börse). However, both the national and the international securities markets are characterized, as before, by great uncertainty and high volatility.

In the middle of 2002, the fourth German Financial Market Promotion Act came into effect, introducing a sweeping reform of stock market law. In addition, the restructuring into the two new listing segments "General Standard" and "Prime Standard" was implemented.

As a globally operating company, it was clear to CDV from the beginning that it wanted to face the challenges of the international markets and switch to the "Prime Standard". Approval was granted as of January 1, 2003. CDV Software Entertainment AG was thus one of the first German companies to be listed in this segment.

In order to further consolidate the confidence of investors, the company has accepted to the fullest extent the recommendations of the German Code of Corporate Governance. The declaration of compliance was published on the CDV website (www.cdv.de) in December 2002.

B. Development of sales, result, cash flow, liquidity, and equity

The economic and financial environment of the group in 2002 as well as the resulting consequences are explained in the first part of the management report. These are the reasons why it was not possible to achieve the figures originally targeted for 2002 as a whole.

The CDV group registered sales growth before returns of around 16% to □30.3 million. At -1%, sales after returns are just below the previous year's level.

The gross profit rose by 7% to □13.3 million, but fell from 47.5% to 44% of gross sales.

Overall, at □624,000, the result before interest and tax (EBIT) declined by □891,000 from the previous year. The net loss for the year amounted to □185,000.

The operational cash flow increased from □2.7 million to □3.8 million. Liquid funds and other securities in current assets amounted to □5.7 million on the cut-off date and, at □9.7 million, were thus □4 million lower than the previous year. The absolute equity declined to □13.7 million from the previous year (□13.9 million) and the vertical equity ratio declined from around 65% to around 60%. The balance sheet total increased from the previous year by □1.5 million or 7%.

C. Future development risks

As a company with international operations, CDV is exposed to a large number of business risks as well as opportunities, which increase in proportion to accelerating globalization and intensifying competition.

Precisely in the hit business of software entertainment, significant risks are associated with the ability to produce successful game titles on time and within budget and to successfully market these worldwide at a reasonable price.

At a high aggregation level, the ability to attract and retain well-trained, experienced, and creative personnel is, as in many growth companies, critical to success. To be highlighted here are also the management resources below the board level, which should aim to avoid being overly dependent on the entrepreneurial skills of the Management Board.

In the industry, product liability risks arise as a result of defective or virus-infected software. Of course, CDV is also exposed to the usual business risks such as economic fluctuations, heightened competition (including price pressures, sales figures, returns), changes in the political, financial, and legal framework (including rights to a name, patent, and licensing rights), exchange rate fluctuations, bad debts, and failures in organization and control.

CDV faces up to these risks through a large number of sensible measures, such as the deployment of a risk management system, of consistent, logical and ongoing project controlling of the products in development, regular interdepartmental management meetings, rigorous internal quality assurance, customer credit insurance, and effective finance controlling. In addition, the company employs a legal manager and also refers to highly experienced external legal advice for support.

For the games *Combat Mission 2*, *Divine Divinity*, *Project Nomads*, *Neocron*, *American Conquest*, *Grom* and *Airborne Assault*, a special reserve for returns of □2.12 million was created. For titles that have not yet been published, non-scheduled depreciation of □404,000 was taken in the annual balance sheet as a precautionary measure. As a result of risk provisions made last year that are no longer required and of current non-schedule depreciation, an income of □170,000 results.

D. Developments since the balance sheet date

Following the balance sheet date, CDV has been able to conclude two letters of intent (preliminary contracts) for several more interesting PC and Xbox products for 2004, which are to be changed to full contracts once pre-production has been successfully carried out.

In the month of January alone, several licensing contracts for CDV titles were concluded with international marketing partners for a contract volume of around □1 million. Thus, for example, the international marketing of the titles *American Conquest* (Benelux, Italy, Poland, Scandinavia, and Southeast Asia), *Grom* (Benelux, France, and Poland) and *Airborne Assault* (France) has been secured.

With effect from January 1, 2003, the Supervisory Board appointed Karl vom Bauer to the Management Board, and he has taken over the Operations department from Christina Oppermann, a member of the Management Board.

Prof. Dr. Walter Ruda, Chief Financial Officer of CDV Software Entertainment AG, left the company as of January 31, 2003, by mutual agreement, as he is assuming new responsibilities and continuing other activities that will entail greater time pressures.

Until a successor is appointed, Christina Oppermann and Karl vom Bauer will provisionally take over responsibility for the Finance department and the Investor Relations department.

Within the framework of the improvements to the computer systems, further progress in creating the conditions for introducing integrated company software from Navision was made in 2002. As of January 1, 2003, the new financial accounting as well as the new wages and salaries software was put into operation as a first step.

For 2003, it is currently assumed that the majority of the budgeted sales will again be generated in the second half of the year on account of the high concentration of titles have been published by then.

No further special events have arisen since the balance sheet date.

E. Strategy and outlook

CDV is pursuing the clear strategic goal of pushing ahead carefully with international expansion and becoming one of the global players in the international games industry in the fields of development and publishing. The priority targets have been set as the increase of the number of products with a further enhancement of the product quality, continued expansion of the marketing network as well as porting the products to several platforms.

Following the titles *Blitzkrieg*, *No Man's Land*, and *Heaven and Hell*, the PC version of the 3D action shooter *Breed* is set to be published in the first half of 2003. A great deal of praise has already been lavished upon the title. Indeed, it received the distinction of being voted "PC Game of the Show" at the ECTS 2002 in London.

The product pipeline for 2003 also includes the PC games *Galaxy Andromeda* (previously known as *Imperium Galactica III*), *Psychotoxic*, *Panzers*, and *Lula 3D*.

With the release of *Cossacks II - Napoleonic Wars*, CDV is looking forward to another highlight in the second half of 2003. It will be the newest game in the internationally successful *Cossacks* series (around one million copies sold).

Over the course of the year, we will publish our first two Xbox™ titles, *The Kore Gang* (previously called *CORE*) and *Vultures*. According to data from Microsoft, more than eight million units of the Xbox™ video game system have been sold worldwide since its launch in November 2001. In Europe, the console has clearly seized the number 2 spot behind Sony's PlayStation 2.

These figures illustrate what market potential this system holds. With the relatively small expenditure for porting PC games to the Xbox™ video game system and the low related costs, CDV will be developing further titles for the Xbox™ video game system in the near future.

Thanks to the high affinity of the Xbox™ player target group with CDV products, the company is looking forward with confidence to exciting developments in this field.

Following successes up to now, the aggressive international marketing of all titles will continue and contribute significantly to sales.

Liquid funds and securities of current assets amount to □5.7 million, which means that the financial basis and liquidity situation of the company remain solid and form the starting point for the further positive development of business.

Despite the most recent adjustment of the target figures, CDV continues to consider electronic entertainment as a growth market, particularly in the international arena. According to data from the market research company NPD (01/03), the US market was able to record a new sales record of USD 10.3 billion in the past year, an increase of around 10% on the previous year.

Globalization will enable CDV to take part in this growth to an increased extent.

In the current financial year, CDV will continue to concentrate on the area of own production, which offers the richest potential and clearly the

strongest returns. The exploitation of rights from products we have developed ourselves not only extends the value added chain, but also enables a significantly higher profit margin.

Through this on-going and carefully planned increase of the share in sales of successful, multi-platform own production for national and international marketing, CDV is creating the basis for further solid growth - also for the next few years.

Group structure

Group parent company

CDV Software Entertainment AG,
Karlsruhe/Germany, with an additional
operational location in London/England.

Wholly owned company

CDV Software Entertainment USA, Inc., Cary, NC,
USA, with an additional office in Los Angeles, CA.

Executive bodies

Management Board

Wolfgang Gäbler,
Karlsruhe/Germany,
(Chairman and CEO).

Christina Oppermann, Eggenstein-
Leopoldshafen/Germany
(COO until December 31, 2002).

Prof. Dr. Walter Ruda, Annweiler/Germany
(CFO until January 31, 2003).

Karl vom Bauer, Trier
(COO since January 1, 2003).

Supervisory Board

Gerhard A. Koning, Member of the Board of
K/L/M, Kelkheim im Taunus/Germany
(Chairman).

Rüdiger Burkart, tax consultant, Bad
Bergzabern/Germany (Vice-Chairman).

Stephan Wiedorfer, attorney at law,
Munich/Germany.

Branches of CDV Software Entertainment AG

Publishing office in the United Kingdom

CDV Software Entertainment AG
221a Lee Valley Technopark
Ashley Road
Tottenham
London N17 9LN
England, U.K.

Operating location: Siegerland development studio

CDV Software Entertainment AG
Studio Siegerland
Ernst-Heinkel-Strasse 32
57299 Burbach
Germany

Wholly owned subsidiary:

CDV Software Entertainment USA, Inc.
210 High House Rd., Suite 103
Cary, North Carolina 27513
USA

1600 Rosecrans Ave.
Bldg 1-B Suite 208
Manhattan Beach, CA 90266

Consolidated profit and loss statement	Notes	12/31/2002 kEUR	12/31/2001 kEUR
1. Revenues	(1)	30,337	26,180
Returned sales		(8,586)	(4,215)
2. Other operating income	(2)	222	509
3. Changes in inventories of finished goods and works in progress		160	(371)
4. Production of own fixed assets capitalized	(3)	277	307
5. Cost of purchased materials and services		(5,540)	(9,657)
6. Personnel expenses		(6,435)	(4,002)
7. Depreciation and amortization		(3,817)	(489)
8. Unscheduled write-downs / write-ups	(4)	170	(1,113)
9. Other operating expenses	(5)	(6,164)	(5,634)
Operating income /(loss) (EBIT)		624	1,515
10. Interest income and expense		138	466
11. Foreign currency exchange gains / (losses)	(6)	(1,159)	37
Result before income taxes (EBT)		(397)	2,018
12. Income tax		(142)	(695)
13. Accrued and deferred taxes	(7)	354	(34)
14. Net income / (loss)		(185)	1,289
15. Retained earnings from the previous year		2,615	1,771
16. Revenue reserve and other revenue reserves		(1,000)	0
17. Adjustment accrued and deferred taxes		0	(445)
18. Consolidated net profit for the year		1,430	2,615
Net income EUR per share (basic) ¹⁾		(0.11)	0.80
Net income EUR per share (diluted) ¹⁾		(0.11)	0.80
Weighted average shares outstanding (basic)		1,620,000	1,620,000
Weighted average shares outstanding (diluted)		1,620,000	1.620.214

Consolidated balance sheets		Notes	12/31/2002 kEUR	12/31/2001 kEUR
ASSETS				
Current assets				
1. Cash and cash equivalents	(8)		3,713	7,679
2. Short-term investments / marketable securities	(9)		1,996	2,002
3. Trade accounts receivable	(10)		4,322	4,361
4. Inventories	(11)		798	527
5. Tax refund claim	(12)		222	103
6. Prepaid expenses and other current assets	(13)		831	843
Total current asset			11,882	15,515
Non current assets				
7. Deferred tax asset	(14)		291	0
8. Tangible assets	(15)			
1. Leasehold and similar rights, incl. buildings on third party land			13	19
2. Plans and machinery			69	73
3. Other fixtures and fittings, tools, and equipment			308	374
9. Intangible assets	(16)			
1. Concessions, industrial property rights and similar rights, and licenses thereto			3,233	284
2. Development costs			700	489
3. Prepayment on own work			6,326	4,558
Total non current assets			10,940	5,797
Total assets			22,822	21,312

Consolidated balance sheets	Notes	12/31/2002 kEUR	12/31/2001 kEUR
Liabilities and shareholders' equity			
Current liabilities (17)			
1. Short-term debt and current portion of long-term debt		0	1
2. Trade accounts payable		1,179	1,453
3. Advance payments received		251	34
4. Accrued expenses	(18)	6,216	4,210
5. Income tax payable		193	576
6. Other current liabilities		996	684
7. Due to body members		269	91
8. Capital resulting from profit participation rights (short-term)		55	93
Total current liabilities		9,159	7,142
Non current liabilities			
9. Deferred tax liability	(14)	0	95
10. Capital resulting from profit participation rights (long-term)		0	149
Total non current liabilities		0	244
Shareholders' equity (19)			
11. Share capital		1,620	1,620
12. Additional paid-in capital		9,660	9,660
13. Revenue reserve and other revenue reserves		1,019	19
14. Retained earnings / accumulated deficit		1,430	2,615
15. Equity difference resulting from currency conversions		(66)	12
Total shareholders' equity		13,663	13,926
Total liabilities and shareholders' equity		22,822	21,312

Annual financial statement

In accordance with IAS

Consolidated cashflow statement	12/31/2002	12/31/2001
	kEUR	kEUR
1. Consolidated net profit / (loss) (before tax)	(397)	2,018
2. Write-downs, write-ups, foreign currency translation of intangible assets relating to balance sheet date depreciation	4,050	1,312
	391	290
3. Currency translation	1,081	(17)
4. Interest income	(165)	(483)
5. Interest expense	27	17
6. Operating result before change in working capital	4,987	3,137
7. Increase/(decrease) in other accrued liabilities	2,006	1,540
8. Increase/(decrease) in inventories	(271)	402
9. Increase/(decrease) in trade account receivable	39	1,060
10. Increase/(decrease) in prepayments and accrued income	12	227
11. Increase/(decrease) in trade account payable	(274)	(496)
12. Increase/(decrease) in other liabilities (incl. liabilities due to body members)	707	27
13. Changes in assets and liabilities	2,219	2,760
14. Paid income tax	(676)	(456)
15. Paid interest expense	(27)	(17)
16. Net cash from operating activities	6,503	5,424
17. Interest income	165	483
18. Investments in short term financial assets	0	(2,002)
19. Other expenses not impacting cash flow	6	0
20. Deposits resulting from sales of tangible assets	20	9
21. Investments in intangible assets	(8,981)	(6,144)
22. Cash paid for investments in tangible assets	(332)	(510)
23. Cash flow from investing activities	(9,122)	(8,164)
24. Deposits resulting from capital increases	0	0
25. Payments from outstanding profit-sharing rights	(187)	0
26. Deposits resulting from capital accrued from profit participation rights	0	59
27. Payments/deposits from finance loans	(1)	(2)
28. Cash flow from financing activities	(188)	57
29. Decrease in cash & cash equivalents (total amount lines 16, 23, and 28)	(2,807)	(2,683)
30. Currency translation	(1,159)	37
31. Cash & cash equivalents at beginning of period	7,679	10,325
32. Cash & cash equivalents at end of period	3,713	7,679

Statement on changes in equity						
	Subscribed capital	Capital reserves	Revenue reserves	Net profit / (net loss)	Equity difference / currency conversion	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
January 1, 2002	1,620	9,660	19	2,615	12	13,926
Capital increase	0	0	1,000	(1,000)	0	0
Currency conversion ¹⁾	0	0	0	0	(78)	(78)
Consolidated loss for the year	0	0	0	(185)	0	(185)
December 31, 2002	1,620	9,660	1,019	1,430	(66)	13,663

1) Incl. accrued and deferred taxes

Consolidated asset movement schedule for business year 2002

(gross results)

	Historical costs or costs of production						Depreciations				Book value		
	Balance on 01/01/2002	Additions	Disposals	Re- booking	Differences from foreign currency translation	Balance on 12/31/2002	Balance on 01/01/2002	Additions	Disposals	Extraordinary depreciation/ appreciation	Balance on 12/31/2002	Balance on 12/31/2002	Balance on 12/31/2001
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Tangible assets													
1. Land and leasehold rights as well as similar rights and buildings including buildings on third-party land	34	15	0	0	0	49	15	21	0	0	36	13	19
2. Plant and machinery	85	13	0	0	0	98	12	17	0	0	29	69	73
3. Other fixtures and fittings, tools, and office equipment	952	304	132	0	0	1,124	578	353	115	0	816	308	374
	1,071	332	132	0	0	1,271	605	391	115	0	881	390	466
Intangible assets													
1. Concessions and industrial property rights and similar rights and values as well as licenses thereto													
a) Own production	529	2,726	3	3,727	134	7,113	315	3,322	0	294	3,931	3,182	214
b) Other Software	83	19	0	0	0	102	13	38	0	0	51	51	70
	612	2,745	3	3,727	134	7,215	328	3,360	0	294	3,982	3,233	284
2. Development expenses	656	277	0	0	0	933	167	66	0	0	233	700	489
3. Prepayments on own production	5,477	5,825	794 ¹⁾	(3,727)	0	6,781	919	0	0	(464)	455	6,326	4,558
	6,745	8,847	797	0	134	14,929	1,414	3,426	0	(170)	4,670	10,259	5,331
	7,816	9,179	929	0	134	16,200	2,019	3,817	115	(170)	5,551	10,649	5,797

1) Foreign currency translation of advance payments in relation to the balance sheet date

NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS for the 2002**financial year****CDV Software Entertainment AG, Karlsruhe / Germany****A. GENERAL DISCLOSURES**

In the 2002 financial year the company was employed in the proprietary development of eTainment software, the publication of eTainment and application software, and in sales, marketing, and distribution.

For CDV, the term "eTainment software" encompasses entertainment (i.e. computer games), edutainment, and infotainment software. Products for distribution are purchased as finished products and then sold directly on the retail market.

The consolidated annual financial statements of CDV Software Entertainment AG as of December 31, 2002, were compiled based on the International Accounting Standards (IAS) of the International Accounting Standards Board (IASB). Pursuant to Sect. 292a of the German Commercial Code (HGB), we have opted not to compile any consolidated annual financial statements under the regulations of the German Commercial Code (HGB) and the German Stock Corporation Law (AktG). Because of its listing on the Neuer Markt of the Deutsche Börse AG, CDV Software Entertainment AG is obligated to compile its consolidated annual financial statements in accordance with IAS or the US-GAAP. In those cases in which the IAS does not include any special provision, our disclosures were made - with respect to the equivalence criteria of Sect. 292a HGB - based to a large extent on the HGB regulations.

In addition to the consolidated profit and loss statement and consolidated balance sheet, a consolidated cash flow statement per IAS 7 and a consolidated statement of changes in shareholder's equity per IAS 1 have been compiled. Furthermore, the notes to consolidated annual financial statements include a division report per IAS 14. The consolidated profit and loss statement was compiled based on the total cost method of accounting. In order to meet the requirements of Deutsche Börse AG regarding a uniform format, the balance sheet was divided into short-term (up to one year) and long-term (longer than one year) assets and debts.

The preparation of the consolidated financial statements requires estimates and assumptions to be made by the management, which impact not only the level of booked assets and liabilities at the time the accounts are prepared, but also the expenses and income. The actual results can deviate from these estimates.

Within the framework of the ongoing improvement of transparency, some reclassifications were made in the preparation of the consolidated financial statements. Comparative figures were adjusted accordingly.

The consolidated financial statements are prepared in Euro. All amounts, including those of the figures for previous years are indicated in thousands of Euro (kEUR).

B. NOTES ON MATERIAL DEVIATIONS TO GERMAN ACCOUNTING PRINCIPLES IN ACCORDANCE WITH § 292 A HGB

Accounting, according to International Accounting Standards (IAS), is based on the objective of providing investors with decisions relevant for making decisions. According to IAS, commercial and tax accounting are strictly separated, provisions for expenses are not permitted, earnings realization deviates in certain cases, the accounting and valuation options are more rigorously defined and the notes more extensive.

Differences result especially in the treatment of receivables and liabilities in foreign currency, which according to IAS are valued at rates applying on the balance sheet date, while the imparity principle is to be applied according to German generally accepted accounting principles.

According to IAS, development costs must be capitalized in specific situations. They are to be depreciated over the period of their economic useful life. It is prohibited to capitalize research expenses. According to generally accepted accounting principles in Germany, development costs are only to be capitalized when they have been acquired against payment.

According to IAS, deferred tax positions are to be established for all temporary differences between the valuation of the tax accounting and account. This also contains deferred taxes on loss carryforwards, provided that it seems sufficiently certain that the loss carryforwards can be used.

C. THE GROUP

1. Consolidated companies

Besides the parent company CDV Software Entertainment AG, the subsidiary CDV Software Entertainment USA, Inc./Cary,NC/USA - in which CDV Software Entertainment AG directly holds 100 % of the voting rights - was included in the consolidated annual financial statements.

2. Consolidation standards

Uniform Group accounting and valuation

The annual financial statements of all companies included in the consolidated financial statements are compiled as per the balance sheet date of the consolidated financial statements. They were compiled based on uniform accounting and valuation methods.

The financial statements of the German and foreign companies were audited by independent auditors. They were included in the consolidated annual financial statements - Commercial Balance Sheet II, based on the regulations of the IASB. Unqualified auditor's opinions were rendered on the annual financial statements.

Full consolidation

The capital consolidation of the fully consolidated companies was performed based on the purchase method. The historical costs of the investment were set off against the book value of the shareholder's equity of the fully consolidated company in application on the date of incorporation.

Intra-group receivables and liabilities between fully consolidated companies were set off. Differences resulting from this setoff (4 kEUR) have been

eliminated during the financial year, thus affecting the operating result. They are the result of foreign exchange differences.

In the result consolidation, the internal turnover as well as intra-group income of fully consolidated companies were set off against the expenses relating to this income or turnover.

3. Currency translation

Individual annual financial statements in foreign currencies

The currency translation was performed in accordance with IAS 21. Pursuant to this standard, currencies should be translated - based on the concept of the functional currency - at the exchange rate prevailing on the balance sheet date. There were no rate-hedged foreign currency positions. The items of the foreign company's balance sheet are translated at the middle rate of exchange prevailing on the balance sheet date and the items of the profit and loss statements at the average rate of exchange of the financial year. The equity capital is always translated at historical rates. The annual net profit is converted at the average rate of exchange of the financial year.

Treatment of differences resulting from foreign currency translation

Translation differences resulting from the conversion of the equity capital are - on principle - set off with the shareholders' equity not affecting the operating results (shareholders' equity differences resulting from currency translation).

The **difference** resulting from the currency translation breaks down as follows:

	kEUR
Balance on January 1, 2002	12
Total amount of the translation differences of the financial year not affecting the operating result	(129)
Total amount of deferred taxes relating to translation differences of the financial year, which do not affect the operating income	51
Balance on December 31, 2002	(66)

4. Accounting and valuation methods

Going-concern concept

The consolidated annual financial statements have been compiled based on the assumption of the going-concern concept.

The specific balance and valuation methods are shown for the respective balance sheet items.

Sales revenues and turnover realization

Sales revenues are realized when the respective performance is rendered. Should a return be probable on the basis of experience values, a provision is formed for the obligation to recognize returns. In the publishing division, earnings are realized on an accrual basis, in accordance with the specifications of the respective contract.

D. PROFIT AND LOSS STATEMENT

(1) SALES REVENUES

For the breakdown of sales, refer to the notes in the Segment Reporting section.

(2) OTHER OPERATING INCOME

	2002 kEUR	2001 kEUR
Income resulting from adjustment of receivables	34	229
Income from insurance refunds for loss of receivables outstanding and from written-off claims	122	155
Income from retransfer of accruals	0	65
Other	66	60
	222	509

(3) OWN WORK CAPITALIZED

This item solely includes capitalized costs for the development of computer games.

(4) UNSCHEDULED WRITE-DOWNS / WRITE-UPS

The position is made up as follows:

	2002 kEUR
Unscheduled write-downs on own work and on advance payments for own work	(698)
Write-ups on own work and on advance payments for own work	751
Reversal of the general provision on advance payments for own work	117
	170

(5) OTHER OPERATING EXPENSES

This item includes the following expenses:

	2002 kEUR	2001 kEUR
Distribution expenditure	3,895	3,333
Administrative expenses	1,253	1,166
Other operating expenses	756	536
Other (other expenses)	260	599
	6,164	5,634

(6) FINANCIAL RESULT

The financial result is the net of interest and similar income and interest and similar expenses. The interest on profit participation rights total kEUR 4 (previous year: kEUR 14).

The item foreign exchange gains/(losses) breaks down as follows:

	2002	2001
	kEUR	kEUR
Foreign exchange gains	359	350
Foreign exchange (losses)	(1,518)	(313)
	(1,159)	37

This contains the translation of foreign currency for advance payments on own production booked at a level of approx. kEUR -800 that impacts earnings.

(7) TAXES ON INCOME AND PROFITS

The taxes on income and profits include the corporation income and trade income tax of the German company as well as comparable taxes on income of the foreign company.

The item breaks down as follows:

	2002	2001
	kEUR	kEUR
Foreign income taxes	(271)	(364)
German income taxes	0	(351)
Tax refund from tax loss carry back	135	0
Tax refund previous years	8	48
Tax back payment	(14)	(28)
Taxes on income	(142)	(695)
Deferred taxes	354	(34)
	212	(729)

E. BALANCE SHEET

ASSETS

(8) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in banks and cash. Inflows and outflows of cash, forming the financial resource fund as defined in IAS 7, are reported in the Consolidated Cash Flow Statement (Page 48).

(9) SECURITIES HELD AS CURRENT ASSETS

These are financial assets available for disposition, which were valued at their current market values. There was no decrease in value. Value impairments of kEUR 6 were made in a way that impacted the result.

(10) TRADE RECEIVABLES

Trade receivables are booked at acquisition costs after deduction of necessary value adjustments that are aligned to the actual default risk. Receivables in foreign currency are valued at the rate on the balance sheet date.

(11) INVENTORIES

Inventories are recorded at historical cost. If necessary, inventories were written down to their lower realizable value.

(12) TAX REFUND CLAIM

For the first time, the item has been booked separately in the Group balance sheet. The figures for the previous year have been adjusted accordingly. The tax refund claim item covers the following tax receivables.

	2002 kEUR	2001 kEUR
Trade tax refund from tax audit	0	14
Trade tax advance payments 2002	95	0
Corporation tax refund from tax audit	0	34
Corporation tax advance payments 2002	97	0
Foreign income taxes	0	55
Claim to refund from tax loss carry back	30	0
	222	103

(13) PREPAYMENTS AND ACCRUES INCOME AND OTHER ASSETS

Prepayments and accrued income was valued at historical costs, relating to the respective total amount based on the anticipated accrual period or in the amount of the part which was not yet claimed.

	2002 kEUR	2001 kEUR
Licenses	321	413
Other	67	43
	388	456

Other assets are booked at nominal value and relate chiefly to

	2002 kEUR	2001 kEUR
Receivables due from employees	73	218
Allocation of interest floater	4	12
Creditors with debit balances	62	77
Receivable returns discount	170	0
Refund claim other taxes	17	19
Surety deposits	24	17
Advances paid	61	0
Other	32	44
	443	387

(14) DEFERRED TAXES

In correspondence with IAS 12, deferred taxes were allocated both in respect to different accounting and valuation methods of the companies included in the consolidated annual financial statements and the consolidation measures affecting the operating result.

The setoff of accrued and deferred taxes was performed if the prerequisites of IAS 12.74 were fulfilled. The deferred taxes have a residual maturity of more than one year.

The deferred taxes were determined based on the tax rates which are applicable or which are expected in the respective country at the time of realization. The tax rate, which the computation of the deferred taxes for the German companies was based, was 38% (corporation income tax, solidarity surcharge and trade tax). Expenses in the amount of kEUR 354 (2001: kEUR 34) were recorded in the accounting period.

The **accrued taxes** include the following:

	2002 kEUR	2001 kEUR
Valuation differences	361	140
Loss carried forward	200	0
Difference in shareholders' equity	44	0
	605	140
Set off against deferred taxes	(314)	(140)
	291	0

In the reporting year, kEUR 44 (previous year: deferred tax liability kEUR - 7) active deferred taxes from the conversion of foreign contracts were offset neutrally against equity. The Group mixed tax rate of 38% was applied.

Deferred taxes

The **valuation differences** determined lead to deferred taxes in the following items in the amount of:

	2002 kEUR	2001 kEUR
Development expenses	280	169
Tangible assets	0	2
Accrued liabilities	34	57
Difference in shareholders' equity	0	7
	314	235
Set off against accrued taxes	(314)	(140)
	0	95

Transition of tax expenditure

	kEUR
Result before taxes on income and profit	(397)
Calculated tax expenditure (tax rate 38%)	150
Non-deductible operating expenses	(48)
Deviating foreign taxes resulting from deviating tax rates	112
Taxes, previous years	(2)
	212

FIXED ASSETS

The breakdown of the positions in the Group fixed asset position as of December 31, 2002, and the development of consolidated fixed assets in the 2002 financial year are shown in the following schedule of consolidated fixed assets.

(15) TANGIBLE ASSETS

Tangible assets are valued at acquisition costs minus early settlement discounts. As per IAS 23.7 financing costs were not capitalized.

The tangible assets are depreciated based on their economic useful life of two to ten years by way of the straight-line method of depreciation. Maintenance costs are expensed as incurred.

(16) INTANGIBLE ASSETS

Purchased intangible assets are recognized at acquisition costs plus ancillary acquisition costs. The item contains primarily software and licenses acquired. Scheduled depreciation is applied according to the straight-line method. Own work is amortized in line with the useful life, with a transition to scheduled depreciation according to the straight-line method. The maximum useful life is two to five years.

Unscheduled depreciation of kEUR 698 and a write-up of kEUR 751 were applied on acquired own work and on advance payments for own work. The general valuation allowance for advance payments on own work of kEUR 117 from the previous year was written back. The valuation of the advance payments for own work was changed against the previous year in that the general valuation allowance was discontinued, as past experience has shown that there were no general risks. The other valuation methods remained unchanged against the previous year. For the first time, unscheduled write-downs and write-ups were offset as an individual item in the statement of earnings. In the previous year, unscheduled write-downs were contained in the materials item. In addition, in 2002 the scheduled depreciation on licenses acquired was posted for the first time under depreciation on tangible and intangible assets. In the previous year it was booked in the materials item. The change in allocation was done in order to provide better transparency. The figures of the previous year were changed accordingly.

The unscheduled write-downs were made as a result of various discontinuations and impairments of own work. Some write-ups were made for own work for which schedule write-downs were made last year, because the reason for which the write-downs were made no longer exists.

Development costs

In accordance with IAS 38, which was effective as of the balance sheet date, development costs which are neither basic development nor performed for third parties are to be capitalized when the requirements of IAS 38.45 have been met.

If the development activities occurred in connection with utilizable products, the costs accrued were capitalized. Directly allocable personnel expenses and costs of material were recorded.

In the financial year there were no development costs which met the criteria of IAS 38.45 (previous year: kEUR 572).

Capitalized development costs were depreciated systematically by way of the straight-line method of depreciation over the useful life of maximally two years. The straight-line method of depreciation starts at the time at which the product or the process can be sold or integrated in the internal process. The disposals after the expiration of the economic useful life was disclosed in the asset movement schedule.

Prepayments on intangible assets

Payments are posted at payment amount or with a lower attributable value. Payments in foreign currency are translated at the rate on the balance sheet date.

LIABILITIES

(17) LIABILITIES

Liabilities are basically reported based on the amount of repayment.

In accordance with IAS 21.9 and 21.11, foreign currency liabilities were converted at the respective exchange rate on the balance sheet date. Exchange rate gains and losses due to changes in exchange rates are charged to earnings.

Other liabilities

Other liabilities include the following:

	2002 kEUR	2001 kEUR
Taxes	343	393
Debitors with credit balances	467	131
Social security contributions	134	89
Wages and salaries	29	38
Other	23	33
	996	684

(18) ACCRUED LIABILITIES

According to IAS 37, the accrued liabilities are recorded based on the amount which is determined by way of a "best effort" estimation of the expenditure covering the current liability on the balance sheet date.

The other accrued liabilities were allocated to the reserves in the amount of the anticipated liability. This amount was determined by the management by way of the principle of a "best effort" estimation and based on the valuation by the legal advisor. Those other accrued liabilities cover all recognizable obligations to third parties in correspondence with IAS 37. The basis applied was the repayment amount with the most likely occurrence. Reserves were only formed if they were based on any legal or actual obligation to a third party. These accrued liabilities are of a short-term nature. The term of the accruals is less than one year.

A special provision for returns of kEUR 2,120 was established for the games *Combat Mission 2*, *Divine Divinity*, *Project Nomads*, *Neocron*, *American Conquest*, *Grom*, and *Airborne Assault*. In addition, a general provision for returns was made.

Schedule of Accrued Liabilities:

	01/01/2002 kEUR	Utilization kEUR	Additions kEUR	12/31/2002 kEUR
Other accrued liabilities				
Returned sales	3,110	(3,110)	4,625	4,625
Vacation	96	(96)	171	171
Outstanding invoices / expenses relating to financial statements	98	(98)	73	73
Bonus / allowances for advertising expenses	236	(210)	572	598
Management bonus, bonus employees	23	(23)	76	76
Licenses	535	(404)	183	314
Allowances for advertising expenses licensee	43	(43)	233	233
Other	69	(56)	113	126
	4,210	(4,040)	6,046	6,216

(19) Equity Capital**Subscribed Capital**

There have been no changes to the share capital in comparison to the previous year, and it remains at kEUR 1,620, divided into 1,620,000 bearer shares. Each share has the same participation in the share capital.

The Management Board was authorized at the Annual Meeting of Shareholders on April 3, 2000, to increase the share capital of the company - with the consent of the Supervisory Board - during a period ending on December 31, 2004 in one amount or partial amounts by issuing new shares, which do not exceed kEUR 400, against cash contribution or contribution in kind (approved capital). There were no changes in the 2002 financial year.

At the Annual Meeting of Shareholders on June 13, 2001, a resolution was also passed regarding the increase of the conditional capital pursuant to Sect. 218 sentence 1 German Stock Corporation Law (AktG).

	new kEUR	formerly kEUR
Conditional capital I	110	55
Conditional capital II	460	230

This was entered in the Commercial Register on September 18, 2001.

The conditional capital I and the conditional capital II were divided as follows:

Conditional capital I

The total nominal value of the profit participation conversion privileges I totals up to kEUR 110. The profit participation conversion privileges I bear a fixed interest of 7% p.a.

In the course of the Annual Meeting of Shareholders on June 13, 2001, the conditions for the issuing of profit participation conversion privileges (here: 3rd tranche) were amended as follows:

As per a qualifying period, the profit participation conversion privileges I may first be exercised upon expiration of a period of two years, as of the day on which the purchase price of the conversion for I was received by CDV Entertainment AG (effective date). For one third of the conversion privileges I granted by the company to the allottee under a stock option plan the qualifying period ended upon expiration of a period of two years as of the effective date; and for another third of the privileges I the period ended

upon expiration of a period of three years as of the effective date. For the remaining third of the privileges I, the period ended after four years as of the effective date. Upon expiration of the fifth year as of the effective date, the conversion privileges I expired.

By the balance sheet date, the following profit participation conversion privileges had been issued:

	pieces
1. Tranche	16,220
2. Tranche	2,869
3. Tranche	5,630
Total number of profit participation conversion privileges	24,719
Of which held by CDV itself due to repurchase	19,291

Conditional capital II

The total nominal value of the profit participation conversion privileges II totals up to kEUR 460. The profit participation conversion privileges II bear a fixed interest of 7% p.a. 100% of the profit participation conversion privileges II are to be granted to individuals and legal entities who have a business relationship with CDV Software Entertainment AG and who are not employees of CDV Software Entertainment AG (allottees II). By the balance sheet date, profit participation conversion privileges II in the amount of 100 units had been issued.

Up to one third of those privileges can first be exercised upon expiration of a period of one year as of the effective date. For up to another third of the privileges the qualifying period ends upon expiration of a period of two

years. For the remaining third, the qualifying period ends after three years as of effective date.

Hence, profit participation conversion privileges in the total amount of EUR 248,190 (24,819 pieces) have been issued.

The prerequisite for an effective exercise of the privileges is a cash allocation of the holder of the profit participation conversion privilege. The cash payment equals the amount by which the average stock price of the CDV stock at the Frankfurt Stock Exchange Xetra for a period of three months before the date of the offer is in excess of the nominal value of the privilege. A maximum reduction by 5% is possible and in CDV Software Entertainment AG's discretion.

Capital reserve

There were no changes in 2002.

Revenue reserve

At the Annual Meeting of Shareholders on June 13, 2002, it was resolved to transfer kEUR 1,000 from unappropriated retained consolidated earnings to other earnings reserves as of December 31, 2001.

Unappropriated retained consolidated earnings

The position has changed as follows:

	2002 kEUR
Unappropriated retained earnings as of January 1, 2002	2,615
Transfer to other earnings reserves	(1,000)
Consolidated net loss	(185)
Unappropriated retained earnings as of December 31, 2002	1,430

Equity capital difference resulting from the foreign currency conversion

For the development of the conversion differences, which were set off against the equity capital and did not affect the net income, please refer to the comments on the foreign currency conversion.

F. CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statements (page 48) is established in line with the payment flows from operating, investment, and financing activities and is presented in line with the indirect method (IAS 7 par. 18b).

Financial resources

The financial resources only comprise those cash resources whose original maturity covered a period of less than three months.

G. SEGMENT REPORTING

Breakdown by region

The first breakdown by region has been done on the basis of the location where the service is rendered.

The figures of the previous year have been adjusted accordingly.

The sales revenues result from ordinary business operations and are given before returns and provisions for returns in the financial year.

Annual financial statement

In accordance with IAS

2002	CDV Karlsruhe Germany kEUR	CDV London Branch UK kEUR	CDV Cary Subsidiary USA kEUR	Consolidate	Total kEUR
Sales revenues	21,980	5,127	3,230		30,337
Segment result	(587)	461	(64)	5	(185)
Segment assets	18,582	1,832	1,895		22,309
Segment debts	7,559	762	590		8,911
Investments	7,237	28	1,914		9,179
Scheduled depreciation	2,399	24	1,394		3,817
Unscheduled write-downs / write-ups	170	0	0		170
2001	CDV Karlsruhe Germany kEUR	CDV London Branch UK kEUR	CDV Cary Subsidiary USA kEUR	Consolidate	Total kEUR
Sales revenues	19,745	4,139	2,296		26,180
Segment result	788	209	296	(4)	1,289
Segment assets	19,349	626	1,309	(75)	21,209
Segment debts	5,877	107	490		6,474
Investitionen	6,610	30	14		6,654
Scheduled depreciation	469	15	5		489
Unscheduled write-downs / write-ups	(1,113)	0	0		(1,113)

Breakdown by area of activity

The breakdown of revenues has been done before returns and before consideration of provisions for returns of the financial year.

	2002		2001	
	kEUR	%	kEUR	%
Own production	26,265	87	21,941	84
Publishing	3,367	11	2,169	8
Distribution	705	2	2,070	8
	30,337	100	26,180	100

Breakdown according to specific geographical markets

The breakdown of revenues according to specific geographical areas has been done before returns and before consideration of provisions for returns of the financial year.

	2002		2001	
	kEUR	%	kEUR	%
Germany	12,966	43	12,672	48
Europe	13,164	43	9,115	35
Other foreign contries	4,207	14	4,393	17
	30,337	100	26,180	100

Transfer prices

The transfer prices of the Group companies are aligned to normal market conditions as would be generated with a third-party company.

H. EARNINGS PER SHARE PER IAS 33

The undiluted result per share is determined based on the net result of the shares being divided by the average amount of shares. A dilution of this ratio can be the result of so-called potential stocks (mainly stock options). The undiluted earnings per share is disclosed.

Pursuant to IAS 33, the result per share (earnings per share) is determined by the consolidated net result for the year being divided by the weighted number of shares.

		2002	2001
Consolidated net result for the year	kEUR	(185)	1,289
Total weighted number of shares		1,620,000	1,620,000

Earnings per share

	2002	2001
Net result for the year in kEUR	(185)	1,289
Weighted number of stocks (units)	1,620,000	1,620,000
Undiluted result per share in EUR	(0.11)	0.80
Adjusted net result for the year in kEUR	(185)	1,289
Weighted number of stocks (units)	1,620,000	1,620,000
Weighted number of diluted potential shares (from profit participation rights)	0	214
Diluted result per share in EUR	(0.11)	0.80

I. OTHER DISCLOSURES

(20) CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

The following other financial obligations exist:

	2003 kEUR	2004 - 2008 kEUR	Total kEUR
Non-accountable financial obligations			
Rent - office space	535	3	538
Obligations resulting from investment projects already started	5,875	257	6,132
Leasing / rent - movable objects	79	13	92
Insurance	69	28	97
	6,558	301	6,859

The lesasing obligations primarily concern the lease of office equipment and motor vehicles under typical market conditions.

(21) AVERAGE NUMBER OF EMPLOYEES BY CATEGORY DURING THE FINANCIAL YEAR

	2002	2001
Office staff	120	80
Trainees	5	5
Temporary staff	27	13
Employees	152	98

(22) RELATED PARTY TRANSACTIONS

There are no relationships with related parties as defined in IAS 24.

(23) DECLARATION ON THE GERMAN CORPORATE GOVERNANCE CODE

The declaration required in accordance with § 161 of the German Stock Corporation Act has been submitted and made available to the shareholders.

(24) DISCLOSURES RELATING TO THE MANAGEMENT BOARD AND SUPERVISORY BOARD**Management Board during the financial year**

- Mr. Wolfgang Gäbler, Karlsruhe/Germany (Chairman)
- Ms. Christina Oppermann, Eggenstein-Leopoldshafen/Germany
- Mr. Prof. Dr. Walter Ruda, Annweiler/Germany (CFO until January 31, 2003)
- Mr. Karl vom Bauer, Karlsruhe/Germany (from January 1, 2003)

Mr. Wolfgang Gäbler is Chairman of the Board of the U.S. subsidiary CDV Software Entertainment USA, Inc./Cary, NC / USA.

Supervisory Board

- Mr. Gerhard A. Koning, Kelkheim im Taunus/Germany (Chairman)
- Mr. Rüdiger Burkart, tax consultant, Bad Bergzabern/Germany (Vice-Chairman)
- Mr. Stephan Wiedorfer, attorney at law, Munich/Germany

Mr. Gerhard A. Koning is a member of the board of the Axxon - K/L/M Wertpapierhandelsbank AG, Frankfurt/Main, Germany.

Mr. Rüdiger Burkart is a member of the Supervisory Board of Interseed Kft., Budapest /Hungary as well as a member of the Supervisory Board of MilesTex AG, Zweibrücken/Germany.

Mr. Stephan Wiedorfer has been Vice Chairman of the Supervisory Board of ICON AG, Oberhaching near Munich/Germany since July 24, 2002.

Information on shareholdings that the company has published in accordance with § 20 Section 1 or 4 German Stock Corporation Act, according to § 21 Section 1 or 1 a of the Securities Trading Act

	unitary shares	share capital
Management Board		
Wolfgang Gäbler (Chairman)	617,438	38,11
Christina Oppermann	308,218	19,03
Other: Universal-Investment Gesellschaft mbH Frankfurt am Main (Special funds)	145,314	8,97

This information was published in the Börsenzeitung (Stock Exchange Dispatches) on April 25, 2002, and July 6, 2002.

Total remuneration, members of the managing bodies

The total remuneration for directors in the 2002 financial year amounted to kEUR 799 (2002: kEUR 681).

Beside the amounts paid, the total remuneration also includes the granting of a vehicle for private purposes as well as management bonuses.

The Supervisory Board received a remuneration in the amount of kEUR 23 (2002: kEUR 23) for its work. The compensation of evidenced expenses totaled kEUR 1.

Karlsruhe, this 12th day of March, 2003

CDV Software Entertainment AG

- Management Board -

Wolfgang Gäbler

Christina Oppermann

Karl vom Bauer

Listing of shareholdings

CDV Software Entertainment AG, Karlsruhe

Name and registered office	Participation as defined in Sect. § 16 AktG	Equity capital	Result of the 2002 financial year
	%	kEUR	kEUR
I. Affiliated companies			
CDV Software Entertainment USA, Inc./Cary, North Carolina/USA	100	680	(64)

AUDITOR'S CERTIFICATE

AUDITOR'S CERTIFICATE FOR AN EXEMPT CONSOLIDATED ANNUAL FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH SECT. 292A GERMAN COMMERCIAL CODE

Independent auditor's opinion:

We have audited the consolidated annual financial statements of CDV Software Entertainment AG, consisting of the balance sheet, the profit and loss statement, the statement on changes in equity, the cashflow statement and the notes to the consolidated annual financial statements for the business year from January 1 to December 31, 2002. These financial statements are the responsibility of the company's management. It is our task to evaluate, based on the audit performed, whether the consolidated annual financial statements correspond with the International Accounting Standards (IAS).

We have performed our audit of the consolidated annual financial statement in accordance with German auditing regulations and the generally accepted auditing practices as defined by the Institut der Wirtschaftsprüfer (IDW = Institute of Certified Public Accountants). Accordingly, we planned and performed our audit in such manner as to establish with reasonable assurance that the consolidated annual financial statements are free of any material misstatements. An audit includes examination, on a random test basis, of evidence relevant to the amounts and disclosures in the financial statements. The audit includes an assessment of the accounting principles applied and material estimates made by legal representatives as well as the presentation of the consolidated annual financial statements and the Management's Report as a whole. We believe that our audit provides sufficient evidence for our audit opinion.

In our opinion, the annual financial statements gives an true and fair view of the state of affairs of the Group in accordance with the IAS and accurately presents the financial situation of the Group as well as the cashflow of the business year.

Our audit, which also extends to the Group management report prepared by the Management Board for the financial year from January 1 through December 31, 2002, has not led to any objections. In our opinion, the management report provides, on the whole, a fair understanding of the Group's position and adequately presents the risk related to its future development.

In addition, we confirm that the consolidated financial statements of the CDV Group and the Group management report for the financial year from January 1 through December 31, 2002 satisfy the conditions required for the company's exemption from its obligation to prepare the consolidated financial statements and the Group management report in accordance with the German Commercial Code.

Nuremberg, March 17, 2002

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Selch
Certified Public Accountants

Hahn
Certified Public Accountants

Share holdings of CDV Software Entertainment AG to be filed

Proportion of the share capital on 12/31/2002

	No par value shares	As %
Management Board		
1 Wolfgang Gäbler (Chairman)	617,438	38.11
2 Christina Oppermann	308,218	19.03
3 Prof. Dr. Walter Ruda	2,600	0.16
Supervisory Board		
1 Gerhard Koning (Chairman)	400	0.02
2 Rüdiger Burkart (Vice Chairman)	3,000	0.19
3 Stephan Wiedorfer	192	0.01
Own shares		
1 CDV Software Entertainment AG	0	0.00
Total	931,848	57.52

CDV Software Entertainment AG

CDV Software Entertainment AG was established in 1989 by Wolfgang Gäbler and Christina Oppermann. Initially a trading partnership, CDV is now engaged in publishing, developing, and distributing eTainment products: entertainment, edutainment, and infotainment software. It also publishes inexpensive application software. The term "entertainment software" primarily covers computer games, which represent the largest proportion of sales because of their high unit volume and profitability. The company also develops and publishes tools and specialized software applications.

At its headquarters in Karlsruhe (southwestern Germany), London office, and wholly-owned CDV subsidiary in Cary, North Carolina (USA), CDV currently employs more than 150 people*. The Management Board consists of Wolfgang Gäbler (Chairman and CEO), Christina Oppermann, and Karl vom Bauer.

CDV - Publishing, in-house production, and marketing

In its capacity as publisher, the company usually acquires the worldwide licence for products produced by third parties and developed under CDV's guiding hand. It then assumes responsibility for duplication, marketing, and sales. Such products count as in-house productions because CDV takes command of project financing and project management. Two strikingly successful examples of this process were the titles *Sudden Strike* and *Cossacks*.

The marketing activities that CDV undertakes here include the following: the design of the product and its packaging, ads in online and offline media, advertising e-mails to consumers and editorial staff, website designs, and even a wide variety of promotional campaigns and special events such as "LAN parties". PR activities include having cultivated relationships with the

German and international trade presses over the years, which ensures regular editorial mention in the chief publications of the industry. The company's own field sales force, which includes Key Account and Telesales teams, handles sales directly to retailers in German-speaking countries and by way of a close-knit network of first-class sales agents in other countries. This network boasts more than 300,000 registered final customers. Further, it includes a large number of highly desirable trade listings, the regular despatch of sales brochures and product information, and participation in international trade fairs and exhibitions. All of these contribute substantially to CDV's sales success.

Although CDV does still serve as a straight distributor of finished projects, this side of the business currently accounts for only a small portion of total sales.

One major reason for CDV's success is the large number of individual websites the company maintains for its entertainment products, which monthly attract hits in the double-digit million range. Moreover, CDV records a consistent increase in the number of such hits.

CDV in the entertainment software market

Entertainment software is the fastest-growing segment of the entertainment market. In Germany, sales of games on CD-ROM had outstripped the sales of music CD-ROMs by 1998. In the USA, entertainment software ranks as the type of PC user software most frequently purchased. In 1999, dollar sales of computer and video games had almost reached the same level as cinema box-office takings.

Entertainment software producers in the USA, Japan, Great Britain, and even in France have established themselves with sales running into triple-

digit and quadruple-digit millions. Although Germany is the largest market for entertainment software in Europe and enjoys a huge pool of talented software developers, German producers have not yet been able to measure up to the international "majors" in the business.

According to Media Control, CDV has been the biggest German publisher of PC games in the full-price segment several times since 2000. The company is currently utilizing the advantages of its base in Germany in order to rapidly move ahead and join the international "majors".

The two real-time strategy games Sudden Strike and Cossacks have made a tremendous contribution to the company's international success. With well over 800,000* copies of Sudden Strike and more than 1,000,000* copies of the Cossacks series sold, these titles have taken their place at the top of the international charts. Both of these top-sellers have been distinguished with a large number of awards nationally and internationally. For example, the journal ComputerBild Spiele awarded Cossacks the Golden Computer Award.

CDV is also a member of VUD and ELSPA, the main German associations for the industry.

CDV - strategically positioned

In the past, CDV's top priority lay in distribution. This was the case, because in-house productions of entertainment software can only be successful if backed by large amounts of capital. Between □500,000 and □2,000,000 has to be invested over a period of 12 to 24 months if a top-selling title is to be developed in-house. This means that fixed costs dominate in-house production and that successful in-house products have a far greater margin leverage than distribution or publishing products.

Since CDV's successful IPO in April 2000 (on the Neuer Markt), the company has increasingly based its business success on in-house productions. A wide range of interactive products has thus emerged - and continues to emerge - that can be used across all international markets and all formats. The product range is just as widely diversified in terms of content, as this greatly helps to smooth out sales fluctuations and achieve a satisfactory profit level.

The advantages of a well-organized corporate structure, an outstanding degree of quality consciousness, and the comparative location advantages that Germany offers will continue to contribute to CDV's success and will enable the company to further reduce the distance to its foreign competitors. Not only do successful titles such as Sudden Strike and Cossacks strengthen the company's market position, but they also bring the company to the notice of renowned and talented developers. With their assistance, CDV can and will continue to score great hits.

(* = figures for 2002)

The meaning of terms in a software context or, more specifically, in the context of entertainment software:

2D/3D

2-dimensional/3-dimensional.

Action

Action game genre, e.g. racing, shooter.

Add-on

Additional software for a computer game, e.g. adding new levels, missions, units.

Adventure

Adventure game genre, e.g. solving riddles in the context of a treasure hunt.

Animation

Giving static images the appearance of movement, e.g. making a cartoon figure run smoothly.

Application

Application software for certain value adding functions (in contrast to entertainment software).

Bump mapping

Each point on the surface of an object becomes associated with a certain height above the average surface of the object. Using this technique, it becomes possible to create fine surface structures without having to model them polygon by polygon. It could e.g. be used to create a snakeskin.

Cartridge

Data medium for computer games, e.g. for Nintendo.

CD-ROM

Non-writable storage medium (Compact Disc - Read Only Memory).

Console/Console format

Special video game consoles offered by various suppliers, notably Sony PlayStation, Sega Dreamcast, and Nintendo64.

Design Document

Script for a computer game.

Development Kit

Software designed to develop computer games, in particular for a certain format.

Developer/Development

Company or team that creates and programs software/the activity of creating and programming software.

Distribution

Distribution of goods, services, etc.

Download

Transfer of software or data from a computer/server.

Duplication/Manufacturing

Duplication/Manufacturing of CD-ROM including packaging, if applicable.

Edutainment software

Entertainment software with an educational component.

ELSPA

European Leisure Software Publishers Association Ltd.

Emulator

Software designed to function like a different software system; here the emulator allows programs written for PlayStations to be executed on PCs.

Entertainment software

Entertainment software, mainly computer games.

Environment Mapping

Each point on the surface of an object is associated with the point in the environment that it reflects.

This can be used to create mirror effects as they appear on metal or liquids.

E-mail

Electronic message or letter.

eTainment software

Generic term used by CDV for entertainment, tainment and infotainment software.

Event

An event organized to present a company or to promote its products to those present.

Fan site

Internet page where fans may exchange information.

Feature

Individual content/functions of a computer game.

First person/Ego shooter

Computer game genre in which the player assumes the role of the action hero and views the game over the barrel of his gun.

Format

Certain software environment, e.g. a PC or games console; generally, software that has a certain format can only run on that format.

Format holder

Owner of a computer game format, e.g. Sony, Sega, or Nintendo.

Game play

Fun factor, dramaturgy, or intensity of a computer game.

Games press

Trade press specializing in computer games.

Genre

Computer game genre, e.g. racing.

Hardware

Physical components of a computer system.

Hint book

Contains the solutions for the tasks set in a computer game, e.g. the answers for the highest levels or most difficult missions.

Hit

Any kind of registerable activity of Internet users, e.g. looking at a webpage or downloading a file.

IAS

International Accounting Standards.

Infotainment software

Entertainment software containing informational elements.

Interactive media

Media where the content is determined by the actions of the user, as is the case with computer games.

Interface

Interface between the computer game and the player established by means of control bars, control fields and buttons.

Internet

International standardized computer network to exchange data.

LAN party

Organized computer game competition at which the participants are connected to a network and play with and against each other (Local Area Network party).

Launch

Placing a new software title on the market.

Level

Degree of difficulty of a computer game. Upon the successful completion of a level, a player is generally allowed to progress to the next higher level.

Level CD

Add-on containing additional levels for an existing game.

Localization

Adaptation of software to meet country-specific needs, in particular the translation of any text and language components of the software, packaging, and handbooks.

Major

Market leader.

Marketing

Promotion of a product through advertising.

Merchandising

Exploitation of rights through the sale of side products, e.g. mouse pads or T-shirts with a virtual star.

Mission

Assignment within a computer game, similar to a level.

Multiplayer function

Allows several players to play a game simultaneously.

Online game

Computer games not offered on a recording medium but online; some may be downloaded from a games server while others can only be played on the server operated by the provider.

Opacity mapping

Each point on the surface of an object becomes associated with a certain opacity. Using this technique, it becomes possible to create effects such as the sunglasses effect, when the glasses turn from light to dark.

Operating system

Software which operates and links hardware components.

Phong shading

Illumination values are interpolated across the surface of a polygon. Parts of the calculations are redone for each pixel. This allows the creation of light reflexes within a polygon and the simulation of smooth curved surfaces.

Port

To transfer a piece of software from one format to another, e.g. from a PC to a games console.

Pre-production

The first phase in the development of products, which includes the design document and the graphic representation of any characters, surroundings, 2-D or 3-D animation and first attempts at finding suitable algorithms for certain programming functions.

Preview

Statements by the games press regarding the expected release of a computer game; it usually includes an evaluation of the new product on the basis of tested demo-versions.

Print media

Media using printed form, such as newspapers and magazines (as opposed to broadcasting).

Product placement

Placement of a product in a media product for advertising purposes.

Product returns

The return of purchased goods, in particular by retailers.

Promotions

Actions designed to boost sales, e.g. potential customers are presented a good by a famous person or during a sports event.

Public relations

Actions designed to create a good relationship with the gen-

eral public and therefore also with potential customers, especially achieved through the media.

Publishing/Publisher

The activity of preparing and issuing software titles for sale to the public/a person or especially a company engaged in such activity.

Racing

Racing genre, e.g. formula one races.

Release

Making a software title available to the public.

Real time strategic game

Strategic game in real time, allowing all participants to play without interruptions (i.e. no rounds, breaks, or time for thought).

Retail channels

Channels of distribution in the retail business.

Route planner

Route or travel planning software.

Sequel

Follow-up product that takes up and develops the story of the preceding one, e.g. Wet Attack is the sequel of Wet.

Server

Computer able to provide digital data, information, or other content to third parties via the Internet for example.

Sim/Simulation

Simulation game genre, e.g. aviation simulators. Shareware Software available free of charge for a limited period of time and often distributed for evaluation, after which a fee is requested for continued use.

Software

Computer program.

Strategy

Variant of a strategic game, e.g. the creation of a competitive civilization in the Middle Ages.

Studios

See Developer.

Telesales

Selling conducted or sales made by telephone.

Tool

Software designed for a specific application, e.g. the analysis and improvement of existing computer and software systems.

Translator

Translation software.

Virtual character

Virtual figure, such as the characters in a computer game.

Volatility

Potential market fluctuation, e.g. the risk of a sharp change in price of financial instruments within a certain period of time.

VUD

Verband Unterhaltungssoftware Deutschland e.V.

Website

Internet page, e.g. a virtual presentation of a company and its goods on the Internet.

Xbox

is Microsoft's video game system that delivers never before seen gameplay experiences. With more than three times the graphics performance of the latest generation of game consoles, Xbox empowers game designers with the technology to realise their vision of great games that are challenging, exhilarating, and fun.



Financial Timetable

March 2003	Publication of Annual Financial Statement 2002
May 8, 2003	Financial Results Conference and Analysts Conference, Frankfurt/Main
May 2003	Three-Month-Report 2003
June 13, 2003	Annual Meeting of Shareholders Thursday June 13th, 2003 at 10.30 Uhr at the Filmpalast/ZKM, Karlsruhe
August 2003	Semiannual Report 2003
November 2003	Nine-Month-Report 2003

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