

PREFACE

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Dear Shareholders,

With a 50% increase in sales compared with the same period of last year to DM 30.75 million, the CENIT group continued its successful course in the first quarter of 1999. At the same time, gross profit rose by 49 per cent to DM 14.8 million.

Incoming orders more than doubled compared with the first quarter of 1998, and thus far exceed our expectations. This provides the basis for unremitting, vigorous growth in all three segments (CAD/CAM Solutions, e-business and IT Services) in 1999. In the IT-Services segment, for example, a substantial order from BMW AG, far bigger than last year's, contributed to this. This highlights the confidence placed in CENIT AG by firms which have been customers for many years.

For us, as a systems vendor and service provider for information technology, the CeBIT in Hanover last March was an important event. We were represented by our partners FileNET, Lotus and Tivoli as well as by our own stand. This trade fair was altogether a great success for CENIT AG.

In line with our policy of open communication, we informed investors and analysts at meetings held in Frankfurt am Main, Hanover and New York on the current course of business in the first quarter.



The CENIT share price developed most gratifyingly. From € 137 at the beginning of the year, it had risen to € 222 by March 31, 1999. This makes the CENIT share one of the best performers on the Neuer Markt.

Sincerely,

Spokesman of the Board of Management

CENIT AT A GLANCE

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CENIT AG

1. quarter 1999 at a glance

	First quarter 1999	First quarter 1998
Sales revenue	30.75 mill. DM	20.56 mill. DM
Gross profit	14.80 mill. DM	9.94 mill. DM
Operating earnings (EBIT)	0.01 mill. DM	0.84 mill. DM
After-tax earnings	0.12 mill. DM	0.37 mill. DM
Number of employees at the end of the period	342	235

This is the first time that the figures for the hundred per cent subsidiary CENIT Ltd. are included in a quarterly report.

Figures which are negative are shown with a minus sign. Otherwise no sign is shown.

The development of business

The course of business in the first quarter confirmed the experiences of past years and proceeded as planned. Sales rose by 50 per cent on the corresponding period of last year to DM 30.75 million (first quarter 1998: DM 20.56 million). In gross profit (sales less merchandise and outsourced services) for the CENIT group there was an increase to DM 14.8 million (first quarter 1998: DM 9.9 million). This corresponds to an increase of 49 per cent on last year. The increase in incoming orders was also most gratifying, more than doubling last year's figure.

The number of people employed by the CENIT group rose to 342. This had a particularly positive effect on the service divisions which started off the new year with a considerably expanded, well-trained staff.

Expanded range of services

In the e-business segment, we expanded our portfolio with the pioneering component "Sales Force Automation". In this context, CENIT has been offering OverQuota since the first quarter of 1999: a solution based on Lotus Notes/Domino. Designed specially to support sales personnel, OverQuota, with its knowledge-management approach, holds promise of a substantial increase in successful selling.

Participation in a research project

CENIT AG is participating in the INVITE research project together with other well known enterprises and research institutes. This project for the development of user-friendly DP systems has been granted record funding by the Federal Ministry for Education and Research (BMBF) with an amount of about DM 30 million. The aim of the project is to

make the use of future information and communication systems manageable, effective and attractive to users.

Other partners in INVITE include BMW, IBM, DG Bank, the Fraunhofer Institut für Arbeitswirtschaft und Organisation and the Institut für Arbeitswissenschaft der RWTH Aachen.

Virtual reality at Porsche

Like other renowned automobile manufacturers, Porsche has now decided to use virtual reality. CENIT is installing a rear-projection system there to visualise results of calculations such as crash data, flow simulations and thermic simulations.

Service for Heidelberger Druck

Heidelberger Druckmaschinen AG has a general service agreement with CENIT to support all servers of the IBM RS/6000 type. CENIT thus provides computer operation support in Heidelberg, Wiesloch, Amstetten, Kiel and Brandenburg. Heidelberger Druckmaschinen AG uses IBM RS/6000 servers in its design, time registration and electronic data interchange (EDI) divisions.

CENIT Ltd.

In the first quarter of 1999, our wholly owned subsidiary in the UK made sales of DM 1.35 million with a staff of 18 altogether. CENIT Ltd. thus accounts for four per cent of group sales. In order to promote business in the UK further, we are planning to get a foothold in e-business alongside the CAD/CAM Solutions segment.

Employees

There was another appreciable rise in the number of CENIT's employees already in the first quarter. The number of people in the company's employment rose to 342 by March 31 (first quarter 1998: 235). Twenty-seven new jobs have been created since the beginning of the year.

Higher productivity

The profitability of an enterprise decisively depends not only on the qualifications of its staff but also on its efficiency in handling projects, especially in the service sector. To improve efficiency, the project management system introduced last year was optimised further. In addition to this, CENIT's executives are assessed in terms of productivity targets.

All in all, business in the first quarter of 1999 is in line with expectations and provides a sound basis for the vigorous growth expected in 1999.

CENIT's segments

The CENIT group will report on the following three segments in future:

- **CAD/CAM Solutions:**

This segment comprises sales of CATIA/CADAM solutions and the manufacturing solutions, product data management, virtual reality divisions as well as the CENIT Academy.

- **e-business**

This includes imaging, workflow and document management solutions on the basis of FileNET Panagon, groupware solutions with Lotus Notes/Domino, and e-commerce.

- **IT Services**

This segment primarily concentrates on consulting, the integration and operation of IT infrastructures, systems management, hotline support and outsourcing.

Consolidated statement of income

	First quarter 1999 mill. DM	First quarter 1998 mill. DM	Change in absolute terms	Change %
1. Sales revenue	30.75	20.56	10.19	50
2. Other income / Change in inventories	2.59	0.85	1.75	206
3. Gross earnings	33.34	21.41	11.93	56
4. Cost of material Gross profit	18.54 14.80	11.48 9.93	7.06 4.87	62 49
5. Personnel expenses	10.06	6.28	3.78	60
6. Depreciation on intangible and tangible assets	0.63	0.39	0.23	59
7. Other operating expenses	4.10	2.42	1.69	70
8. Operating earnings (EBIT)	0.007	0.84	- 0.83	
9. Net financial income	0.086	- 0.11	0.20	
10. Earnings from ordinary business	0.093	0.73	- 0.64	
11. Extraordinary expenses/income	0	0.17	- 0.17	
12. Pre-tax earnings (EBT)	0.093	0.90	- 0.81	
13. Taxes	- 0.024	0.53	- 0.55	
14. Net income	0.12	0.37	- 0.25	

The development of earnings

Earnings developed as planned and are in line with the expectations of the Board of Management. Because of the seasonal nature of the company's business, operating earnings are close to a neutral figure as in past years. The first quarter of 1998 was an exception here.

As was to be expected, investments in building up staff—especially expenditure on training and the infrastructure—squeezed earnings.

The earnings position in the second half of a year is usually substantially better owing to the seasonal nature of the company's business. Consequently, it is not possible to draw conclusions regarding year-end results from the volume of business done in the first quarter.

Balance sheet

All balance sheet items developed as planned. Compared with the same period of last year, the equity ratio rose to 69 per cent (first quarter 1998: 20 per cent). This is the

consequence of revenue received on going public and the scheduled transfers of 1998 profits to capital reserve.

Consolidated balance sheet

	March 31, 1999 mill. DM	March 31, 1998 mill. DM
Assets		
Short-term assets		
Liquid assets	18.94	0.89
Securities and own shares	0.80	0
Accounts receivable	29.49	15.10
Inventories	9.40	1.74
	58.63	17.73
Long-term assets		
Fixed assets	5.13	1.64
Intangible assets	0.26	0.25
	5.39	1.89
	64.02	19.61
Liabilities		
Short-term borrowings		
Provisions	3.68	2.87
Special item with reserve portion	0.02	0
Accounts payable for goods and services and other liabilities	5.97	5,11
Liabilities to banks	8.86	6.26
	18.53	14.24
Long-term liabilities	1.50	1.50
Stockholders' equity		
Subscribed capital	5.00	3.50
Reserve for own shares	0	0
Capital reserve scheduled for 1999	38.84	0
Currency reserve	0.03	0
Unappropriated retained earnings	0.12	0.37
	43.99	3.87
	64.02	19.61

Statement of cash flow from January 1, 1999– March 31, 1999 (mill. DM)

Net income for the period	0.12
Depreciation of fixed assets	0.63
Changes in accruals	- 2.30
Disposal of fixed assets	0
Changes in inventories	- 2.55
Changes in accounts receivable for goods and services and other assets	8.69
Changes in payments received, in liabilities due to bills of exchange and in other liabilities	- 3.39
Cash flows from operating activities	1.20
Payments for investments in fixed assets	- 1.55
Outflows from investment activities	- 1.55
Securities	0
Changes in liabilities to banks	- 0.49
Withdrawal currency reserve	0.02
Proceeds from financial activities	- 0.47
Changes in cash and cash equivalents effected by payments	- 0.82
Cash and cash equivalents at the beginning of the period	19.76
Cash and cash equivalents at the end of the period	18.94

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OUTLOOK

After a generally gratifying first quarter we expect vigorous growth to continue in the coming months in all the company's three divisions.

Besides the successful expansion of the e-business segment—to date, an increase of 140 per cent on last year—the CENIT group also wants to strengthen its market position in the CAD/CAM Solutions segment. Further growth is to be stimulated primarily through cooperations with influential firms in the ERP/BMS software sector.

Furthermore, it is planned to convert CENIT shares into non-par-value shares and to resolve a share split in the ratio of 1:4. These measures are primarily intended to promote trading in CENIT shares. This will not affect shareholders' rights and obligations.

What is more, it is planned to ask the Annual General Meeting to pass all resolutions relating to the implementation of a stock-participation programme for employees on the basis of convertible bonds.

[8] People familiar with the IT sector fear that the year-2000 problem will result in fewer investments in the second half of 1999. CENIT's Board of Management does not believe that this will affect the company much.

At their last meeting, the Board of Management and Supervisory Board set the stage for further positive stimulation in the development of the CENIT share. By resolution of the Annual General Meeting to be held on July 14, 1999, the equity of CENIT AG is to be raised from hitherto DM 5 million to € 4 million (DM 7,823,320) out of company funds.