



cenit

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PREFACE

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Dear Shareholders,

At our financial press conference in April we presented our record earnings for 1998 and for the first quarter of 1999 to numerous journalists. The second quarter successfully followed suit and continued the positive trend of the first three months. With an increase of 50 per cent, we can report that the trend continued successfully in the first half year. Furthermore, operating earnings have risen most gratifyingly to DM 2.4 million - an increase of 69 per cent on last year.

In the second quarter, CENIT AG presented its extensive spectrum of services at numerous international events. We participated at the Planet Tivoli in Lisbon and Nashville, and at the SAP trade fair SAPPHIRE in Nice. In keeping with our expertise and market position in the CAD/CAM solutions segment, the CAT-Engineering trade fair in Stuttgart was one of the highlights where we made c. 25 per cent more contacts than last year. Together with IBM and Lotus, we also organised "e-business Roadshows" in Germany.

The share price took an upward leap at the beginning of the year. The peak of EUR 265 reached in February was followed by a sideways movement in the weeks that followed. As for many other equities traded on the Neuer Markt, a market-driven correction began in April. Towards the end of the half year, the share price climbed steeply again. Altogether, the CENIT share held its own as a strong growth equity. Since January of this year, its price increased by 23 per cent.



Your

A handwritten signature in dark ink, appearing to read 'Johannes Bergmann'. The signature is fluid and cursive, written over a light background.

Spokesman of the Board of Management

CENIT AT A GLANCE

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The 1st half-year 1999 at a glance

| | 1 st half-year 1999 | 1 st half-year 1998 |
|--|--------------------------------|--------------------------------|
| Sales revenue | 66.92 mill. DM | 44.76 mill. DM |
| Gross profit | 33.86 mill. DM | 20.99 mill. DM |
| Operating earnings (EBIT) | 2.40 mill. DM | 1.42 mill. DM |
| After-tax earnings | 1.20 mill. DM | -1.01 mill. DM |
| DVFA/SG earnings | 1.20 mill. DM | 0.55 mill. DM * |
| Number of employees at the end of the period | 391 | 251 |

*DVFA/SG earnings have been adjusted by the cost of going public

All figures for the first half-year 1999 include the figures for the wholly-owned subsidiary CENIT Ltd.

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

The development of business

The positive development of business in the first quarter continued into the second quarter. Sales for the first half-year rose to DM 66.92 million (first half of 1998: DM 44.76 million) - compared with the same period of last year, an increase of 50 per cent. Also gratifying was the development of gross earnings (sales less purchased goods and services) which rose by 61 per cent to DM 33.86 million compared with the first half of last year (DM 20.99 million).

Development of earnings

The earnings made in the first half year meet the CENIT group's targets in full. At the same time, we boosted operating earnings (EBIT) by 69 per cent to DM 2.4 million (first half of 1998: DM 1.42 million).

Due to seasonal fluctuations in the business of the CENIT group, earnings are normally higher in the second half of the year. Consequently, no conclusions can be drawn for the year as a whole from first half-year results.

Employees

The vigorous growth of the CENIT group was reflected particularly in the development of the workforce. We continue to be very successful in finding qualified staff, and were able to employ 76 new people at CENIT since the beginning of the year. The number of employees rose to a total of 391 for the group (first half of 1998: 235).

CENIT Ltd.

The vigorous pace of growth continues unchecked also for the business of our wholly owned subsidiary, CENIT Ltd. in the UK. Its sales amounted to DM 2.38 million in the first six months - an increase of 177 per cent on last year. Its workforce was also expanded. At the end of the first half-year, it employed 20 people.

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CENIT's segments

Leading in the CATIA business

Our leadership in the CAD/CAM solutions segment was confirmed once more last spring. In Madrid, Carlo Ranfagni, director of IBM Engineering Technology Solutions Europe, Middle East, Africa officially designated CENIT as Europe's most successful IBM Business Partner in the CATIA environment.

Co-operation with Intershop

In June, member of the board of management Andreas Schmidt met with Stephan Schambach, chairman of Intershop Communications AG to make arrangements for a strategic partnership in electronic commerce, a growth market.

We are further expanding our portfolio in the e-business segment with the sale of

INTERSHOP software. We want to tap new customer potential and consolidate already existing business relationships. Moreover, CENIT AG thus continues its successful strategy of co-operating with world market leaders, such as IBM, FileNET, Lotus and Tivoli, in each of its three business segments (CAD/CAM solutions, e-business and IT services).

CENIT is now a certified SAP partner

As a certified SAP partner for small and medium-sized enterprises (SPM), CENIT AG supports its customers in planning, introduction and support of their SAP R/3 projects. The spectrum of services here ranges from consulting, through implementation and right up to support or outsourcing.

Consolidated statement of income

[4]

| | 1 st half-year 1999 mill. DM | 1 st half-year 1998 mill. DM | Change in absolute terms | Change % |
|--|--|--|-----------------------------|--------------|
| 1. Sales revenue | 66.922 | 44.761 | 22.161 | 49.51 |
| 2. Other income/ Changes in inventories | -0.441 | 0.932 | -1.373 | |
| 3. Gross earnings | 66.481 | 45.693 | 20.788 | 45.50 |
| 4. Costs of material | 32.622 | 24.699 | 7.923 | 32.08 |
| 5. Gross profit | 33.859 | 20.994 | 12.865 | 61.28 |
| 6. Personnel expenses | 21.650 | 13.203 | 8.447 | 63.98 |
| 7. Depreciation on intangible and tangible assets | 1.522 | 1.016 | 0.506 | 49.81 |
| 8. Other operating expenses | 8.288 | 5.356 | 2.932 | 54.75 |
| 9. Operating earnings (EBIT) | 2.398 | 1.419 | 0.979 | 69.01 |
| 10. Net financial income | 0.085 | -0.096 | 0.181 | |
| 11. Earnings of ordinary business | 2.483 | 1.323 | 1.160 | 87.71 |
| 12. Extraordinary expenses/income | 0.000 | 3.736 | -3.736 | |
| 13. Pre-tax earnings (EBT) | 2.483 | -2.413 | 4.896 | |
| 14. Taxes | 1.280 | -1.399 | 2.679 | |
| 15. Net income | 1.203 | -1.014 | 2.217 | |

Concolidated balance sheet

| | June 30, 1999 | June 30, 1998 |
|---|------------------------|------------------------|
| Assets | | |
| Short-term assets | | |
| Liquid assets | 19.262 mill. DM | 27.725 mill. DM |
| Securities and own shares | 0.780 mill. DM | 2.000 mill. DM |
| Account receivable | 29.258 mill. DM | 16.667 mill. DM |
| Inventories | 6.433 mill. DM | 1.706 mill. DM |
| | 55.733 mill. DM | 48.098 mill. DM |
| Long-term assets | | |
| Fixed assets | 5.459 mill. DM | 2.110 mill. DM |
| Intangible assets | 0.250 mill. DM | 0.253 mill. DM |
| Financial assets | 0.000 mill. DM | 0.072 mill. DM |
| | 5.709 mill. DM | 2.435 mill. DM |
| | 61.442 mill. DM | 50.533 mill. DM |
| Liabilities | | |
| Short-term borrowings | | |
| Provisions | 6.303 mill. DM | 0.216 mill. DM |
| Special items with reserve portion | 0.009 mill. DM | 0.000 mill. DM |
| Accounts payable for goods and services and other liabilities | 2.545 mill. DM | 7.082 mill. DM |
| Liabilities to banks | 5.984 mill. DM | 1.749 mill. DM |
| | 14.840 mill. DM | 9.048 mill. DM |
| Long-term borrowings | 1.500 mill. DM | 1.500 mill. DM |
| Stockholders' equity | | |
| Subscribed capital | 5.000 mill. DM | 5.000 mill. DM |
| Reserve for own shares | 0.000 mill. DM | 0.000 mill. DM |
| Capital reserve scheduled for 1999 | 38.840 mill. DM | 36.000 mill. DM |
| Currency reserve | 0.057 mill. DM | 0.000 mill. DM |
| Unappropriated retained earnings | 1.203 mill. DM | -1.014 mill. DM |
| | 45.101 mill. DM | 39.986 mill. DM |
| | 61.442 mill. DM | 50.533 mill. DM |

Statement of cash flow from January 1, 1999 – June 30, 1999

| | |
|---|------------------------|
| Net income for the period | 1.203 mill. DM |
| Depreciation of fixed assets | 1.522 mill. DM |
| Changes in accruals | 0.318 mill. DM |
| Disposal of fixed assets | 0.000 mill. DM |
| Changes in inventories | 0.420 mill. DM |
| Changes in accounts receivable for goods and services and other assets | 8.921 mill. DM |
| Changes in payments received, in liabilities due to bills of exchange and in other liabilities | -6.817 mill. DM |
| Cash flow from operating activities | 5.566 mill. DM |
| Payments for investments in fixed assets | -2.728 mill. DM |
| Outflows from investment activities | -2.728 mill. DM |
| Securities | -0.019 mill. DM |
| Changes in liabilities to banks | -3.363 mill. DM |
| Withdrawal currency reserve | 0.048 mill. DM |
| Proceeds from financial activities | -3.334 mill. DM |
| Changes in cash and cash equivalents effected by payments | -0.496 mill. DM |
| Cash and cash equivalents at the beginning of the period | 19.758 mill. DM |
| cash and cash equivalents at the end of the period | 19.262 mill. DM |

[6]

Fit for the year 2000

To ensure smooth transition to the year 2000, CENIT AG began taking the appropriate steps at an early stage. Due to the high level of data processing penetration in the company, a project team was formed in mid-1998 with a staff of fourteen people from various departments. In addition there is one person with Y2K responsibility for each CENIT product. Co-ordination and responsibility for the Y2K project is in the hands of top management.

Internal systems state-of-the-art

An extensive inventory was made first. Then, using testing procedures that are well established in the industry, all hardware components which had been identified as not having Y2K capability were replaced step by step, and older software versions replaced by new releases attested by the respective manufacturers. The project team paid special attention to CENIT AG applications which affect the whole company.

Most of the investments needed were taken into account in the provisions made for the routine upgrading of in-house DP systems. The work has already been 80 per cent completed.

Security for customers

The aim of all activities includes giving our customers the greatest possible security. All products developed by CENIT AG are designed with the year date expressed in four digits. In addition, numerous tests were applied to products to ensure their Y2K compatibility. CENIT AG provides its customers with the respective certification within the scope of statutory regulations. Responsibility for software and hardware procured through third parties lies with the respective manufacturer. Any risks for CENIT AG are covered by various insurance policies. Should we learn of any problems on the part of our suppliers, we automatically inform those customers who have received the com-

ponents concerned through CENIT.

Furthermore, we support our customers in their preparations for the year 2000 with a special service package: highly qualified specialists analyse the situation on the spot at the company, and draw up a tailor-made catalogue of measures to deal with it.

Influence on CENIT AG's business

As far as the development of CENIT AG's business is concerned, we reckon with only slight negative influences here too. This is because most enterprises have already completed their investments in the Y2K issue on the whole. Provisions set aside for this task but no longer needed by the end of the year could be spent on projects benefiting CENIT AG. Also because of higher demand for services in this sector, we expect positive stimulation to come through the Y2K issue.

OUTLOOK

OUTLOOK

After the gratifying development of the first half of the year, the board of management is confident that the CENIT group will meet the ambitious targets it has set itself for fiscal 1999.

Baden-Württemberg's Minister of Economics, Walter Döring, will visit CENIT AG in August at its principal offices in Stuttgart. On a tour of the firm, he wants to get his own personal impression of the vigour and the innovative power of our company.

Open and direct communication is an essential element of our corporate philosophy. The aim is therefore to adapt all means and forms of communication to the needs of our shareholders, customers and business partners. Special priority here is given to the Internet. With a completely new appearance on the world wide web (www.cenit.de), we have created an ideal platform to make the desired information available to all interested parties.

[8]

Together with our partner FileNET, we shall attend the DMS in Essen next September. This European trade fair for information and document management is the ideal platform for us to present our comprehensive know-how in imaging, workflow and document management to the public.