cenit

9-month report 2000

CENIT AG Systemhaus

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CENIT AG Systemhaus

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9-month report 2000

	1^{st} - 3^{rd} quarter 2000	1^{st} - 3^{rd} quarter 1999
Sales revenue	73.774 mill EUR	52.848 mill EUR
Gross profit	42.490 mill EUR	26.677 mill EUR
EBITA*	0.509 mill EUR	1.842 mill EUR
Goodwill depreciation	1.059 mill EUR	0.000 mill EUR
EBIT	-0.550 mill EUR	1.842 mill EUR
After-tax earnings	-0.919 mill EUR	0.955 mill EUR
Number of employees at the end of the period under review	846	410

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

* Earnings before interest, taxes and goodwill depreciation.

– The financial statements for the 9-month report to September 30^{th} 2000 was drawn up in accordance with the standards of the International Accounting Standards Commitee (IASC) –

Dear Shareholders,

As well as stepping up globalisation, the past nine months of the fiscal year were devoted to the integration of our newly acquired subsidiaries. The three acquisitions successfully completed in the second quarter have already produced the first highly promising joint projects. For example, together with our French subsidiary Spring Technologies SA we succeeded in winning the giant of the sector, BOSCH, as our customer for a pilot project in the CAE sector. In North America, we are working together with our subsidiary L&H Consultants Inc. for the international automotive supplier TRW on an international pioneering project in Virtual Product Management.

In Europe, CENIT AG is now represented in Germany, the UK, Switzerland and France, in North America in Canada, the USA and Mexico. CENIT AG, as the world market leader in system integration for CAD/CAM technologies, holds an outstanding position. However, CENIT AG is also getting in early with future-orientated trends. In September, for instance, we entered into a strategic cooperation with CAA AG, the leading German provider of CarPC solutions in m-commerce – a market with a promising future. This project is concerned with the mobile use of all familiar Internet technologies, and the control and maintenance of passenger cars right up to the mobile office. According to international surveys made by Durlacher Research Ltd., London, UK in 1999, the m-commerce market should grow from DM646m in 1999 to DM47bn by 2003.

A new marketing partnership with SAP AG underscores our positive development in the product sector. In future, a software we developed – SAP PLM-Integration for CATIA – will be distributed world-wide by SAP as a standard component.

In the first nine months of the year, CENIT AG worked hard to boost business developments. A glance at the sales figures shows a marked increase of 40 per cent on the same period of last year. Business in Germany, France and North America proceeded as planned. In the UK and Switzerland, however, CENIT is facing some special challenges. Particularly in the UK, the weak automobile market depresses expectations. In Switzerland, the start-up costs in promising strategic services have been appreciable.

On the other hand, the workforce developed gratifyingly. In a highly contested market, the number of employees rose from 410 in the comparable period of 1999 to 846 today.

The Cenit share price has remained stable
Contrary to the general downtrend on the Neuer Markt, the CENIT share price has proved to be stable and still has further upside potential.

Yours

Falk Engelmann
Spokesman for the Board of Management

Development of business

Sales continue to rise as in the past months. However, earnings will be squeezed by start-up costs in Switzerland, investments in the e-business sector and expenses in globalisation. In the hardware division, year-end business will continue to play the decisive role. Expectations are concentrated primarily on the last quarter. Our IT Services division is continuing its positive development.

New orders

The most gratifying new order was an order worth over DM12m from a major european financal services provider relating to IT infrastructure and applications services over a period of three years. Furthermore, a strategically pioneering training and consulting contract in the engineering sector was placed with CENIT by a leading European aerospace company. To these were added new orders from the industrial corporation Bosch, the automotive supplier TRW and a follow-up order from the retailer REWE alone worth over DM1m in the e-business sector.

Development of earnings

Traditionally, CENIT AG's earnings are essentially made in the second half of the fiscal year. Consequently, the earnings situation for the first nine months of 2000 is quite typical for our line of business. Nor do the new subsidiaries do anything to change this cycle. Thus, operating earnings before goodwill depreciation amounted to EUR0.51m in the period under review (third quarter 1999: EUR1.84m).

The difference to last year is due in particular to expenditure for the globalisation of activities and to the investments needed in the tempestuously growing e-commerce sector. This squeezes earnings temporarily. We are confident, however, that the positive development of earnings experienced in recent years will continue.
Goodwill depreciation amounting to EUR1.06m is the factor which gives rise to a negative EBIT. Here, in line with its corporate philosophy, CENIT AG aims to shorten the customary fifteen to twenty-year depreciation period and to have it completed by the tenth year, despite the fact that this puts pressure on earnings in the short term.

Employees

With a workforce of 499 in Germany, 45 in the UK and 12 in Switzerland, 150 in France and 140 in North America, the number of persons employed by the group had risen to a total of 846 by reporting date (third quarter 1999: 410). For all IT and TC enterprises, knowledge management and the motivation of their employees are decisive factors for success. To ensure further training for our staff and to have a competitive edge on the market with our know-how, we have introduced what are known as "specialty careers" in Germany which have already been accepted by numerous staff. This opens new prospects for employees and strengthens their loyalty to the company. A share option scheme also supports our efforts to retain our employees.

Further globalisation

In the period under review, there was another increase in the quota of sales made abroad, reflecting our successful globalisation strategy.
After taking over Desktop Engineering Ltd., Oxford, UK and Spring Technologies S.A., Montreuil, France, and acquiring L&H Consultants Inc., St.-Laurent, Canada we are sure that our business abroad will continue its positive development.

Consolidated statement of income

	1st-3rd quarter 00 mill EUR	1st-3rd quarter 99 mill EUR	Change in absolute terms	Change in %
1. Sales revenue	73.774	52.848	20.926	40
2. Other income / Changes in inventories	7.956	-0.364	8.320	
3. Gross earnings	81.730	52.484	29.246	56
4. Costs of material	39.240	25.807	13.433	52
5. Gross profit	42.490	26.677	15.814	59
6. Personnel expenses	28.183	16.884	11.299	67
7. Other operating expenses	12.052	6.741	5.311	79
8. EBITDA	**2.255**	**3.051**	**-0.797**	
9. Depreciation on intangible and tangible assets	1.746	1.209	0.536	
10. EBITA	**0.509**	**1.842**	**-1.333**	
11. Goodwill	1.059	0.000	1.059	
12. Operating earnings (EBIT)	**-0.550**	**1.842**	**-2.392**	
13. Net financial income	0.056	0.127	-0.072	-56
14. Earnings from ordinary business	**-0.605**	**1.969**	**-2.463**	
15. Extraordinary expenses/income	-0.091	-0.001	-0.091	
16. Pre-tax earnings (EBT)	**-0.696**	**1.969**	**-2.554**	
17. Taxes	-0.223	1.014	-1.237	
18. After-tax earnings	**-0.919**	**0.955**	**-1.317**	

Consolidated balance sheet

	September 30th 2000	September 30th 1999
Assets		
Short-term assets		
Cash	1.707 Mio EUR	10.787 Mio EUR
Securities and own shares	0.520 Mio EUR	0.431 Mio EUR
Accounts receivable	27.955 Mio EUR	15.186 Mio EUR
Inventories	9.317 Mio EUR	3.596 Mio EUR
	39.498 Mio EUR	**30.000 Mio EUR**
Long-term assets		
Tangible assets	5.283 Mio EUR	2.783 Mio EUR
Intangible assets	25.634 Mio EUR	0.389 Mio EUR
Deferred tax assets	0.912 Mio EUR	0.000 Mio EUR
Financial assets	0.172 Mio EUR	0.000 Mio EUR
	32.001 Mio EUR	**3.173 Mio EUR**
	71.499 Mio EUR	**33.173 Mio EUR**
Liabilities		
Short-term borrowings		
Reserves	1.666 Mio EUR	3.373 Mio EUR
Special items with reserve portion	0.000 Mio EUR	0.003 Mio EUR
Convertible bonds	0.090 Mio EUR	3.073 Mio EUR
Liabilities from accounts payable and other liabilities	16.555 Mio EUR	3.226 Mio EUR
Liabilities to banks	10.439 Mio EUR	0.000 Mio EUR
	28.750 Mio EUR	**9.674 Mio EUR**
Long-term borrowings	**0.623 Mio EUR**	**0.719 Mio EUR**
Advance payments conditional capital increase	**12.486 Mio EUR**	**0.000 Mio EUR**
Shareholders' equity		
Subscribed capital	4.184 Mio EUR	2.556 Mio EUR
Capital reserve	23.350 Mio EUR	19.259 Mio EUR
Currency reserve	0.054 Mio EUR	0.010 Mio EUR
Revenue reserve	2.960 Mio EUR	0.000 Mio EUR
Retained earnings	-0.919 Mio EUR	0.955 Mio EUR
Convertible bonds	0.011 Mio EUR	0.000 Mio EUR
	29.640 Mio EUR	**22.780 Mio EUR**
	71.499 Mio EUR	**33.173 Mio EUR**

Cash flow statement from January 1st 2000 – September 30th 2000

Net income after tax for the period	-0.919 mill EUR
Depreciation on assets	1.746 mill EUR
Depreciation on enterprise value	1.059 mill EUR
Change in accruals	-1.838 mill EUR
Disposals of fixed assets	0.035 mill EUR
Change in inventories	-7.743 mill EUR
Change in accounts receivable for goods and services and other assets	-7.376 mill EUR
Change in advance payments received, Bills payable and liabilities for goods and services and other liabilities	9.411 mill EUR
Inflow of funds from current business	**-5.625 mill EUR**
Payments for investments in fixed assets	-4.213 mill EUR
Payments for acquisitions	-7.033 mill EUR
Outflow of funds for investments	**-11.246 mill EUR**
Securities and own shares	-0.520 mill EUR
Change in financial assets	-0.172 mill EUR
Contributions to capital increase	0.184 mill EUR
Change in liabilities to banks	4.615 mill EUR
Transfers to currency reserve	-0.046 mill EUR
Payments to shareholders	-1.000 mill EUR
Inflow of funds from financing activities	**3.061 mill EUR**
Change in cash and cash equivalents effected by payments	**-13.810 mill EUR**
Funds available at the beginning of the period	15.517 mill EUR
Funds available at the end of the period	**1.707 mill EUR**

Our PMI teams (post-merger integration teams) have already successfully implemented the integration of our new companies into new projects so that smooth co-operation and progress in productivity through synergies can be expected to continue in future. Moreover, we shall take advantage of our broadened international presence for expanding our business.

Besides its now leading position as a CAD/CAM system integrator, CENIT will take the opportunity to step up the development of the e-business segment thanks to its newly won know-how and the broader customer base. It will also to invest in new technologies for this purpose.
Our future plans provide for increasing globalisation with the already integrated acquisitions, particularly in the American market. Our growth strategy in the Internet and e-business segment is expected to boost sales. In the newly developed market for new mobile technologies – m-commerce – we want to do more than just have a say: we also want to be present with even more promotionally effective projects, as is the case, for example, in our co-operation with CAA AG.

As far as the development of business in future is concerned, we expect the fourth quarter of 2000 to bring a continuing rise in sales and a positive development of earnings. The fact that demand for computer hardware is picking up and the trend towards doing business via the Internet continues unremittingly will have a positive effect particularly on the business areas in which CENIT AG operates.